CAVELL
ENERGY CORPORATION

Cavell Energy Corporation is a Canadian based emerging junior oil and natural gas exploration, development and production company actively expanding its production and reserve base in Western Canada. In 1998, Cavell undertook a new strategic focus and created a new business plan targeted towards balance sheet strength, capital risk minimization and rate of return maximization. The plan is hallmarked by its sensitivity to the cyclical nature of oil and natural gas prices; by employing different strategies in the different phases of the commodity price cycle, Cavell identifies opportunities for growth regardless of the phase.

In 2002, Cavell undertook a strategy to expand the Company's assets and set of opportunities in order to more aggressively position itself for long-term sustainable growth. In pursuing this objective the Company accumulated new assets and technical information and expanded development plans for new properties, substantially adding to its land base and inventory of drilling locations. This strategy proved its value in the latter part of 2002 as drilling and production activities began to provide strong results, revealing the potential for long-term growth contained in the Company's assets.

The results of the last few years have positioned the Company to take advantage of opportunities for growth, expanding its exploration and development programs and commencing synergistic property acquisition programs. Cavell's goal is to enhance its balance sheet, grow cash flow, expand its reserve base and augment its inventory of high quality low risk drilling opportunities. Cavell holds a well-balanced portfolio of Company operated producing properties and exploration and development prospects with significant upside potential, providing increased production and financial gains in the years to come.

Cavell's continued demonstration of long-term growth in production, reserves, cash flow, earnings and assets will manifest itself in value for the Company's shareholders. Cavell is listed on the Toronto Stock Exchange under the symbol "KVL".

Contents

AGM

The Annual and Special General Meeting of Shareholders of Cavell Energy Corporation will be held at 2:30 pm, Wednesday, May 14, 2003, in the Main Lecture Hall on the main level of the Metropolitan Centre, 333 – 4th Avenue SW, in Calgary, Alberta. The Company encourages all shareholders and interested parties to attend.

Where amounts are expressed on a barrel of oil equivalent basis (boe), gas volumes have been converted to barrels of oil at six thousand cubic feet per barrel. Cavell's production numbers are calculated net of working interest and after processing (i.e. final sales volumes). The terms funds flow and cash flow are used interchangeably between the Annual Report Consolidated Financial Statements and Management's Discussion and Analysis and is prior to the change in non-cash working capital.

Highlights

(thousands of Canadian dollars, except volume and share data)	2002	2001	% Change
Financial			
Revenue, net of royalties	**19,818**	22,572	(12)
Cash flow from operations	**12,203**	15,566	(22)
$/share - basic	**0.34**	0.47	(28)
$/share - diluted	**0.33**	0.46	(28)
Net earnings	**2,741**	5,784	(53)
$/share - basic	**0.08**	0.18	(56)
$/share - diluted	**0.07**	0.17	(59)
Additions to capital assets	**26,963**	17,506	54
Proceeds on sale of capital assets	**(4,812)**	(1,120)	330
Bank debt	**15,600**	8,800	77
Total debt	**17,141**	9,379	83
Shareholders' equity	**34,638**	30,630	13
Average shares outstanding (000s)	**36,124**	32,863	10
Operations			
Oil (bbls)	**472,277**	566,641	(17)
Natural gas (mmcf)	**2,081**	1,780	17
Boe (6:1)	**819,110**	863,333	(5)
Oil (bbl/d)	**1,294**	1,552	(17)
Natural gas (mmcf/d)	**5.7**	4.9	17
Boed (6:1)	**2,244**	2,365	(5)
Average oil sales price ($/bbl)	**36.00**	33.33	8
Average gas sales price ($/mcf)	**3.92**	4.71	(17)
Average sales price ($/boe)	**30.72**	31.59	(3)
Netbacks ($/boe)	**18.25**	20.97	(13)
Reserves - proven and probable (mboe)	**10,395**	7,252	43
Wells Drilled			
Gross	**50**	28	79
Net	**49**	26	88
Success Rate (%)	**88**	84	

Focused on long-term results:

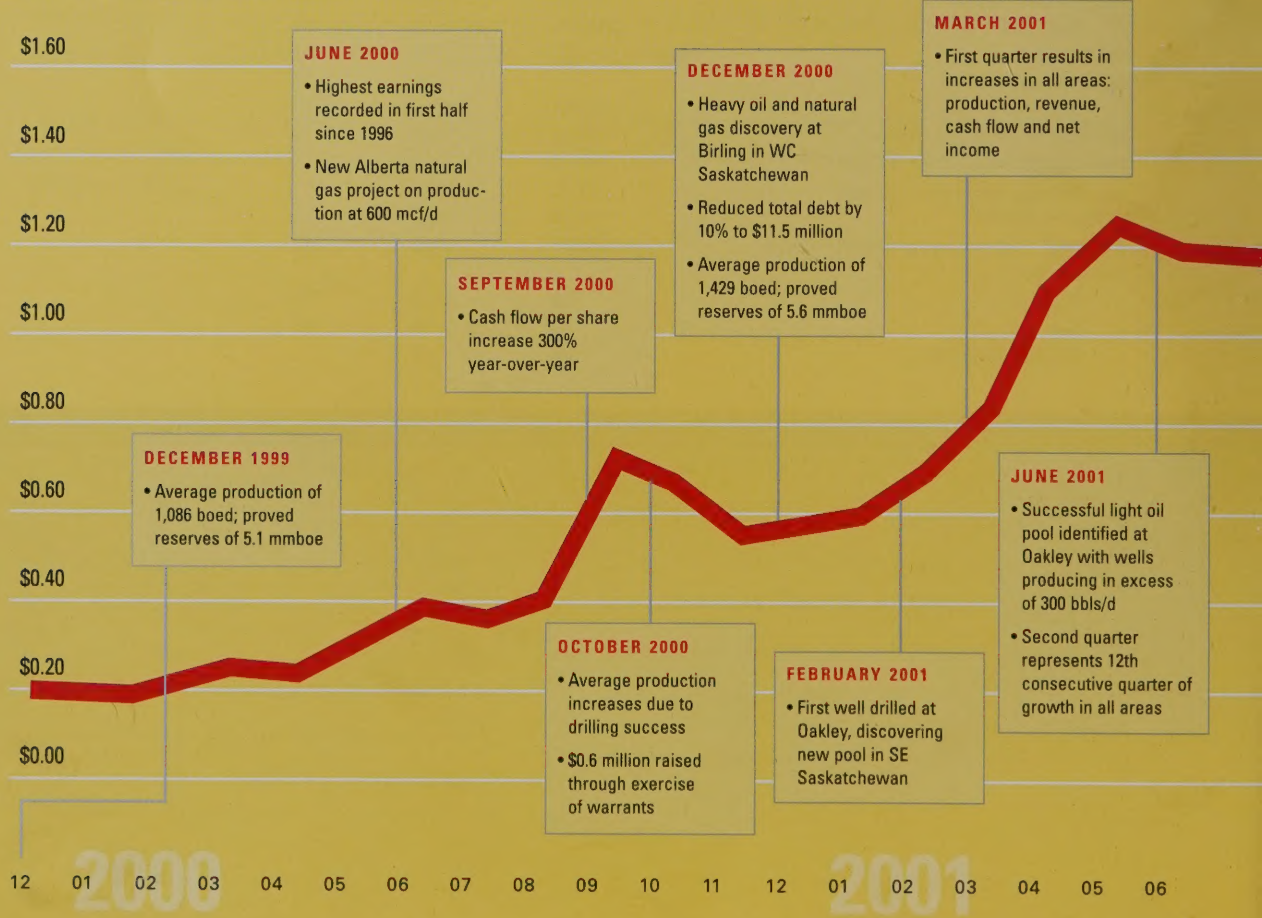
- **Accessing growth opportunities in Western Saskatchewan's natural gas assets while reinvesting in South East Saskatchewan's high netback oil areas**
- **5,000 boed in two years**

Highlights

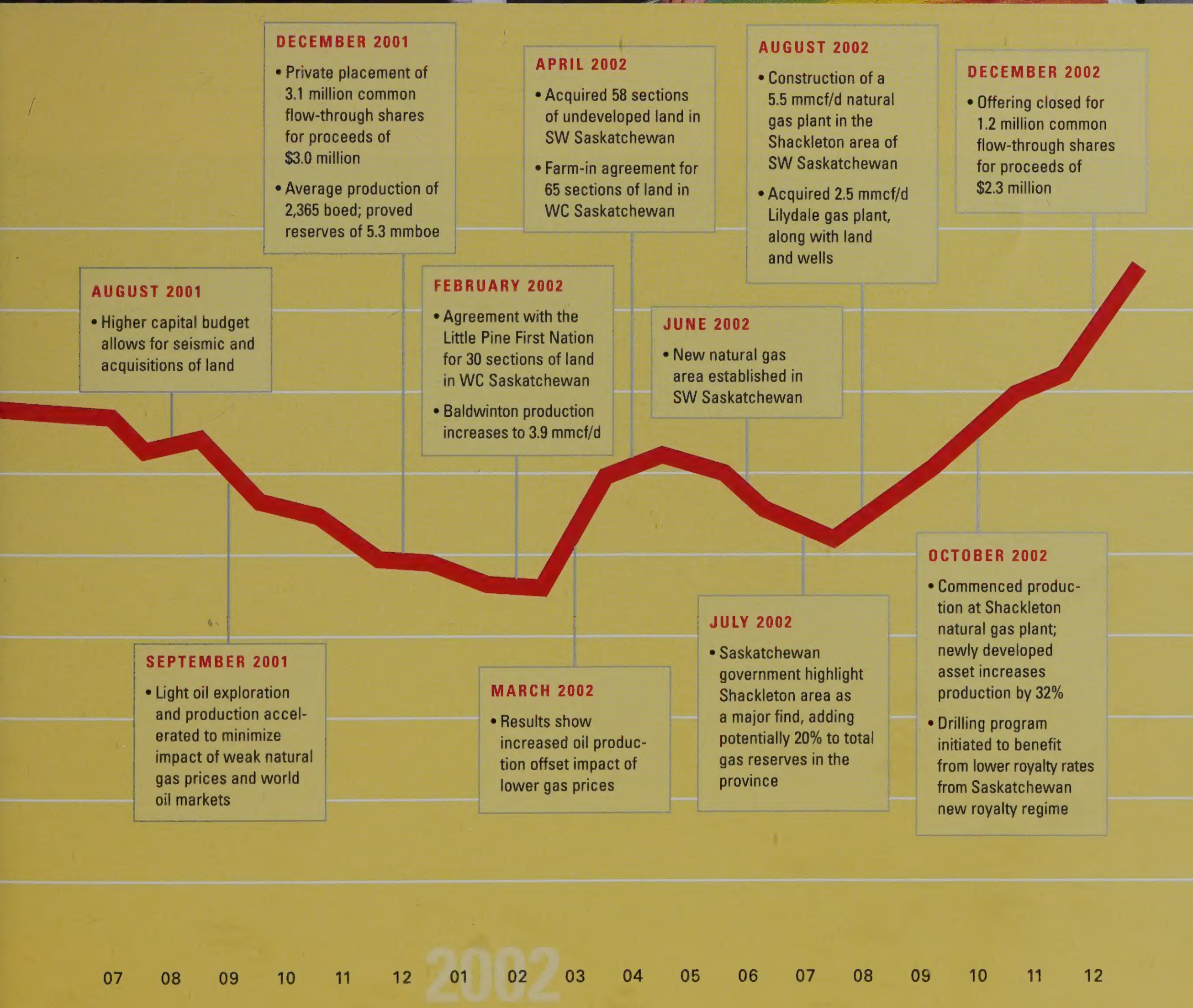
- **Increased established reserves by 47% to 9.2 million boe**
- **Increased net asset value by 60% to $2.15 per issued share**
- **Achieved a $7.32 per boe finding and development cost for proved reserves**
- **Achieved a 2002 December average rate of production of 2,721 boed**
- **Developed a drilling inventory of over 100 locations by year-end**
- **Acquired a 30 section lease from the Little Pine First Nation and a major Farm-in agreement for 65 sections in West Central Saskatchewan**
- **Acquired and built additional 5.0 mmcf/d of natural gas processing capacity in West Central Saskatchewan**
- **Identified, developed and brought the new Shackleton natural gas area to production**
- **Developed and proved a light oil play in South East Saskatchewan**
- **Increased capital assets by 36% to $59.4 million**

The Creation of Opportunity and Value

KVL Share Price
(Share price represents average for the month)

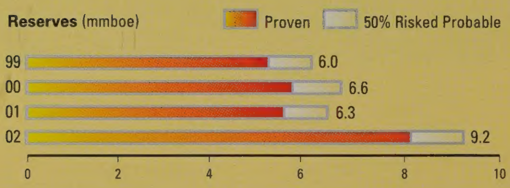


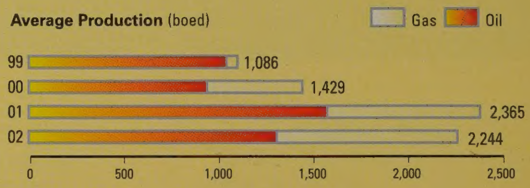
Taking Advantage of the Economic Cycles



Meeting our Goals Year-Over-Year

Cavell focused on creating a strong foundation for long-term growth throughout 2002. This was a year of strategic positioning through the accumulation of assets, identification of new prospects and the realization of new opportunities. While keeping a focus on the future, Cavell maintained a high drilling success rate on an increased number of wells drilled and substantially increased proved and probable reserves. As a result, the Company has created new opportunities that will support its pursuit of growth for years to come.



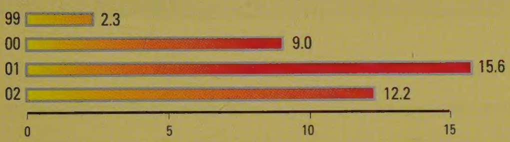


1999 Results	2000 Results	2001 Results
Established natural gas core area in East Central Alberta	Increased natural gas presence: drilled 12 wells and increased land to 45,000 acres	Realized 19% return on equity (32% on pre-tax basis)
Negotiated PanCanadian two year farm-in	Attained average production of 1,429 boed	Achieved 84% drilling success rate
Raised $900,000	Realized earnings of $0.32/share	Attained average production of 2,365 boed
Sold non-core minor properties for proceeds of $700,000	More than tripled 1999 cash flow	Realized earnings of $0.18/share (pre-tax earnings were $0.30/share)
Achieved 70% drilling success rate	Commenced natural gas production in October	Achieved cash flow of $0.47/share
Doubled Q4 cash flow from Q4 1998	Year-end debt to cash flow ratio of 1.28	Increased natural gas rate to 4.9 mmcf/d
	Reduced debt by $1.3 million	Year-end debt to cash flow ratio of 0.60
		Achieved 24% of total production from gas

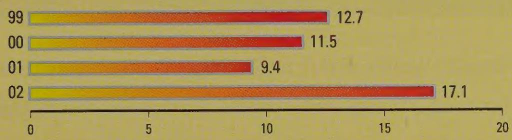
"Cavell has significant opportunities for expanding its exploration and development programs and commencing synergistic property acquisition programs."

Glen A. Volk
Vice President, Production and Operations

Cash Flow ($000s)



Total Debt ($000s)



2002 Target	2002 Results	2003 Target
Create a new natural gas area of operation	Proved commercial gas production at Shackleton in SW Saskatchewan	Create a new natural gas area of operation
Remain earnings positive through the economic downturn	Achieved earnings of $2.7 million despite the drop in field netbacks	Achieve a drilling success rate of at least 70%
Achieve at least a 70% drilling success rate	Realized a drilling success rate of 88%	Achieve an average rate of production of 3,500 boed
Reach an average rate of production of 2,300 boed	Attained average production of 2,244 boed*	Attain reserve additions of a minimum of 10%
Realize significant growth in Cavell's undeveloped land inventory	Acquired rights to 176 sections of land as well as a 65 section farm-in in Western Saskatchewan	Maintain a conservative debt to forward cash flow ratio of less than 1.5 to 1.0
Attain reserve additions of at least 10%	Increased established reserves by 47% to 9.2 mmboe	Increase cash flow per share by 50%
Maintain a debt to cash flow ratio of 1.5 to 1.0 or less	Year end debt to cash flow ratio of 1.4 to 1.0	Increase gas production to greater than 50% of corporate production
Increase natural gas production to 40% of corporate production	Achieved 42% of total production from natural gas	Grow SE Saskatchewan as a strong production and cash flow base
	* target was not achieved as a result of the Company's decision to delay drilling in the third quarter to take advantage of a new royalty structure in Saskatchewan	Expand Western Saskatchewan natural gas systems, extensions and growth
		Maintain commitment to safety performance and minimize impact of Cavell's operations on the environment

Letter to Shareholders

"The strength of the Cavell team combined with the guidance of the Board of Directors has created a strong and flexible asset base. The momentum experienced in the last half of 2002 has set the stage for accelerated growth and increased company value."

Murray D. McCartney
President and Chief Executive Officer

Cavell's central vision for 2002 was to effectively position the Company for significant growth over the next few years. Focused on long-term results versus short-term gains, we developed several goals that would build the foundation required to meet Cavell's two-year goal of 5,000 boed:

- **Shift our natural gas growth strategy to Western Saskatchewan while developing a new area of operation;**
- **Expand the scope of operations in West Central Saskatchewan; and**
- **Build a foundation for growth in South East Saskatchewan.**

It's a well known fact that drilling density in Western Saskatchewan is a fraction of that in Alberta (i.e. there have been far fewer wells drilled in this geologically similar area). This lower drilling density translates into larger available reserves, better deliverability and lower levels of competition. Recognizing this opportunity, Cavell's first goal was to shift our natural gas growth strategy to Western Saskatchewan to take advantage of this area's ability to deliver significant growth in production and reserves. We believe that our 2002 achievements speak loudly in support of this premise.

One aspect of this shift was to develop a new area of operation in Western Saskatchewan. In February 2002, Cavell acquired its initial position in Shackleton, a new area of South West Saskatchewan. This area has proved to be a significant new discovery of natural gas reserves in the shallow Milk River formation, contributing 17.6 bcf of reserve additions since the new field was placed on stream in October, 2002. Since acquiring its initial land position, Cavell now controls about 120 sections of land in the greater Shackleton area and has developed a 5.0 mmcf/d natural gas plant and associated infrastructure for the area.

Cavell's second goal was built on this key shift in corporate strategy. With the success previously experienced in pursuing natural gas in West Central Saskatchewan, the Company decided to aggressively expand the scope of its operations. Firstly, we entered into an agreement with the Little Pine First Nation that gives us access to approximately 30 sections of virtually unexplored land. Secondly, the Company negotiated a 65 section Farm-in Agreement. These two agreements

combined with the willingness to develop gathering and processing infrastructure gives Cavell a dominant position in the area.This effectively set the stage for growth in natural gas production and reserves in late 2002 and into 2003 and beyond.

In South East Saskatchewan, the Company initiated a new strategy in 2002. This area has consistently generated high netbacks, providing a strong supply of cash flow for development. Cavell took preliminary steps to take advantage of its inventory of horizontal drilling opportunities, preparing for reinvestment into its growth of light oil production and reserves in 2003.

2002 was a year to build on the successes achieved in 2001, directing our efforts to capitalize on new opportunities and to further develop the momentum for growth.

The Cavell Edge:

- Concentrated asset base
- Wealth of opportunities
- Solid infrastructure
- High level of expertise
- Proven methodology
- Management perspective
- Flexibility

Results

Our business plan is designed to be risk averse, agile and opportunistic. Its function is to deliver superior results and position Cavell to meet its two-year goal of 5,000 boed. The breadth and variety of our asset base has provided management with the flexibility to respond to fluctuating commodity prices, guiding the Company's direction towards activities with the best long-term returns to the shareholders:

- In response to additional opportunities in Western Saskatchewan and strong natural gas prices, management diverted operations mid-year to focus on increasing rates of natural gas production and reserves;
- Cavell deferred its fall drilling program until October in order to benefit from the revised Saskatchewan royalty regime, reducing royalties for new wells by an average of 10 to 20 per cent. Although this delay impacted short-term production rates, it provides long-term cash flow gains; and
- The East Central Alberta natural gas area was sold to supply funds for the development of natural gas infrastructure in Western Saskatchewan, which provides better drilling and production results.

These actions resulted in late year production and reserve gains, which are continuing into 2003. With drilling activity focused in the last half of the year, Cavell experienced a slight decrease in average daily production but gained a high drilling success rate and large reserve increases. In 2002, Cavell had an 88 per cent drilling success rate and increased established reserves by 47 per cent while delivering a proved $7.32 per boe finding and development cost.

With net capital expenditures of $22.2 million, 2002 was designed to be a platform year to spring forward. Lower commodity prices in the first half of the year and drilling delays impacted cash flow and net earnings slightly, decreasing to $12.2 million and $2.7 million respectively. Year-end total debt was higher than estimated at $17.1 million due to facility additions and land sale activities - decisions made in response to Cavell's drilling success.

Business Plan Principals:

- Continue a long-term focus on natural gas
- Maintain or grow light oil production
- Preserve a solid balance sheet
- Mitigate the various risks of our business
- Generate our own prospects with high working interests
- Uphold strict financial controls

Cavell continues to attend to its goal of being a low cost producer. As in the previous year, the Company successfully reduced its interest expense costs on a boe basis by 19 per cent. Due to a more complex operating environment, operating costs increased to $5.94 per boe versus $5.17 per boe in the previous year. Increased operating costs, crown royalties and lower commodity prices combined for an $18.25 per boe field netback as compared to $20.97 per boe in 2001. Cavell will focus on increasing netbacks as we move forward into 2003.

Through the achievements of the past year, Cavell is in a unique position in our industry. We have a solid balance sheet, a robust drilling inventory of over 100 prospects, three core areas that hold great potential for growth and an experienced team able to exploit these assets. Our business plan has developed a company that is prospect rich, affording management the flexibility to choose from a variety of options that provide optimal returns. This is a rare situation in today's industry and we intend to make the most of our advantage.

2003 Outlook

In 2003, Cavell will maintain its strategic focus and the base principals of its business plan, which has been responsible for our success. These principals will continue to guide Cavell as we develop both new and existing areas of operation.

The success Cavell experienced in the last half of 2002 has set the stage for growth in 2003. We have continued to strengthen the Cavell team with the addition of key personnel, particularly in the natural gas area. Our drilling results in combination with acquisitions have left the Company in a prospect rich position in all areas of operation. Western Saskatchewan alone has the ability to deliver promising results and to be a major driver in achieving our goals through its combination of high quality natural gas drilling prospects, dominant land position and our commitment to the area.

Every year we set forth the Company's principal objectives for the year (Cavell's track record can be found on pages 4 and 5). Our objectives for 2003 are to:

- Create a new natural gas area of operation;
- Achieve a drilling success rate of at least 70%;
- Achieve an average rate of production of 3,500 boed;
- Attain reserve additions of a minimum of 10%;
- Maintain a conservative debt to forward cash flow ratio of less than 1.5 to 1.0;
- Increase cash flow per share by 50%;
- Increase gas production to greater than 50% of corporate production;
- Grow South East Saskatchewan as a strong production and cash flow base;

- Capitalize on increased demand for natural gas through expansion of existing systems, new extensions and strategic growth in our core areas of Western Saskatchewan; and
- Maintain our commitment to safety performance and minimize impact of Cavell's operations on the environment.

The theme of last year's annual report was 'On Lead'; we feel that the team has led the Company towards sustainable long-term growth and results through the achievements of the past year. Over the course of 2003, Cavell expects to continue to develop the multitude of opportunities defined on its lands as well as new opportunities as they are identified.

Currently focused in Saskatchewan, we continually investigate and seek producing properties that will result in meaningful reserve and production additions for the Company. We focus capital on prospects in proven growth areas that offer low cost drilling, multi-zone potential and year round access. As we recognize value in a prospect, Cavell will act on any appropriate opportunity that matches our skill set and business plan to provide value to our shareholders.

The performance, expertise and dedication of the Cavell team combined with the guidance of the Board of Directors has created a strong and flexible asset base - one which is opportunity rich and capable of positive growth in the years to come. As Cavell focuses on attaining its two year production target of 5,000 boed, the contribution of employees and the Board along with the continued confidence shown by our shareholders is greatly appreciated. With your support, we will continue to deliver results - accelerating the momentum for growth and increasing company value.

On behalf of the Board of Directors,

David J. Evans Ph.D.
Chairman

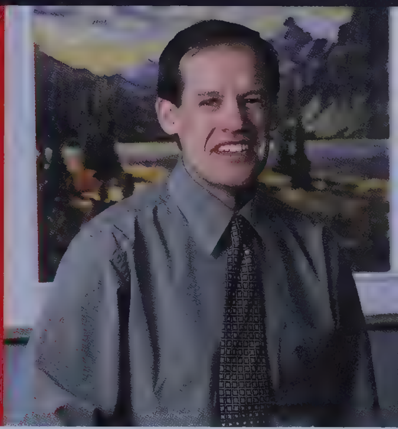
Murray D. McCartney
President and Chief Executive Officer

March 5, 2003

Operations & Exploration Review

"It's the success we achieve through the drill bit combined with our wealth of opportunities that will continue to show results and grow the Company in the years to come."

Wallace G. W. King, Jr.
Vice President, Exploration and Development



Charging into 2003

In 2002, Cavell undertook a strategy to expand the Company's natural gas exposure and opportunities in order to more aggressively position itself for long-term sustainable growth. With the numerous opportunities identified in Saskatchewan, a decision was made to sell the Company's Alberta assets. This allowed Cavell to focus exclusively on its high growth Saskatchewan core areas and provided capital to build facilities and infrastructure.

The majority of Cavell's 2002 budget was focused on developing the potential of its natural gas asset base in Western Saskatchewan. In pursuing this objective the Company accumulated new assets and technical information and expanded development plans for new properties, substantially adding to its land base and inventory of drilling locations. Over 116,422 gross acres of land were added through acquisitions (land sales, freehold leasing and purchase and sale) in 2002. In addition, Cavell's seismic database increased significantly through the acquisition of 580 kilometres of seismic with the expenditure of $2.8 million.

This activity has resulted in a company that is rich in opportunities. As Cavell follows up on its successful natural gas exploration programs of 2002, Western Saskatchewan will contribute additions in production and reserves in 2003. South East Saskatchewan will provide additional light oil volumes as Cavell expands the scope of its exploration and development activities into new pools and reserves.

Cavell is in a unique situation: in addition to having a solid balance sheet, the Company holds a robust inventory of over 100 locations with all three core areas providing great potential for growth. The achievements of 2002 have set a foundation for accelerated results, positioning Cavell to achieve its production goal of 5,000 boed by the end of 2004.

Net Undeveloped Land:	**27,372 acres**
Gross Undeveloped Farm-in Land:	**30,174 acres**
Total Net Land (open):	**5,155 acres**
Total Net Land (close):	**36,116 acres**
Reserves (proven):	**9.7 bcf**
Annual Average Production:	**3.5 mmcf/d**
Dec. 2002 Average Production:	**5.5 mmcf/d**
Production Increase:	**68%**
Wells Drilled:	**11**
Success Rate:	**91%**

Profile

This area offers many opportunities for growth for Cavell and continues to deliver positive natural gas drilling results. Cavell pursues natural gas principally in the Colony and McLaren channel trends in the Cretaceous age. These formations are shallow, approximately 400 to 500 metres subsurface, and are easily identified on seismic using 'bright spot' interpretations (see example on next page). This straightforward seismic model in combination with the area's prospective nature creates an environment where Cavell can deliver solid long-term results.

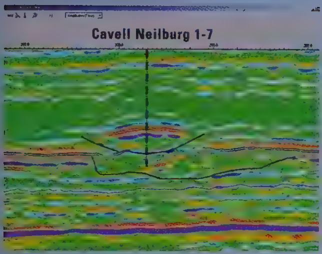
West Central Saskatchewan

2002 Activity

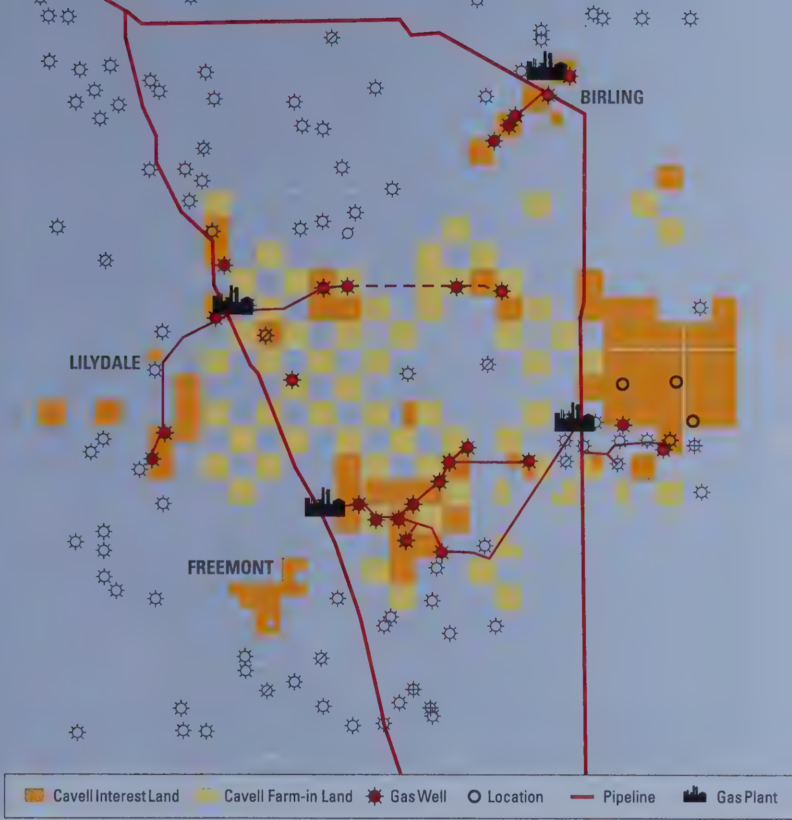
- Acquired over 125 sections of land
- 91% success rate
- Shot $2.1 million seismic
- Built Baldwinton plant at 2.5 mmcf/d capacity
- Purchased Lilydale plant at 2.5 mmcf/d capacity
- Capital expenditures of $8.1 million
- Identified over 30 drillable locations

Plans for 2003

- Expand area of operation
- Capital expenditures of $11.0 million
- Drill 15 to 20 wells
- Increase production to 13.0 to 15.0 mmcf/d by year-end
- Two year production goal: 17.0 to 20.0 mmcf/d



West Central



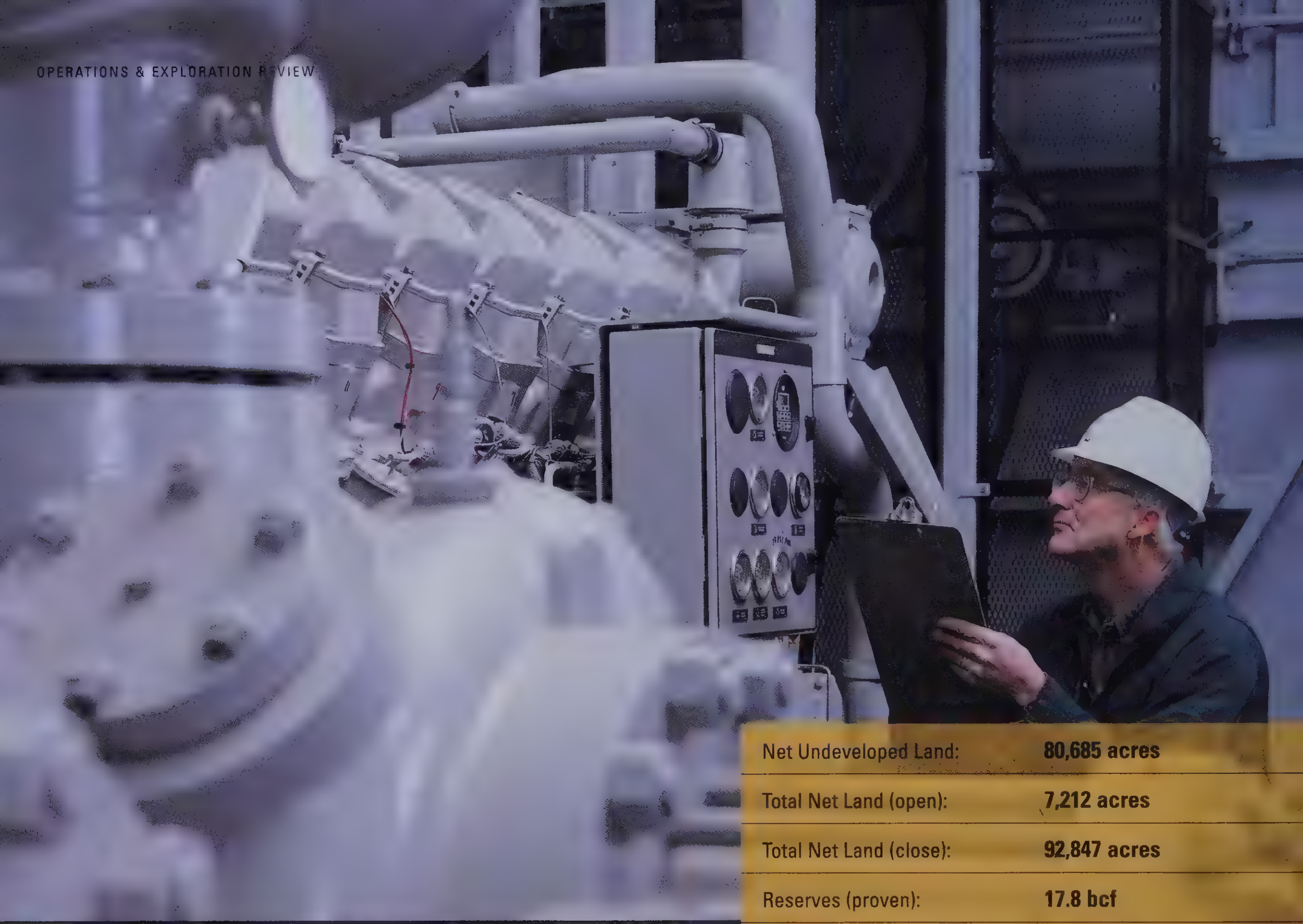
Cavell made significant gains in West Central Saskatchewan in 2002. The Company increased its land position by 30,961 acres of new land, shot $2.1 million of seismic and made investments in infrastructure. Of the 11 wells drilled in the area, 10 were successful (nine gas and one heavy oil), achieving a 91 per cent drilling success rate. During the year Cavell expanded its gas gathering systems and obtained, through construction and acquisition, two additional gas plants. This provided Cavell with control of 7.0 mmcf/d of processing capacity in West Central Saskatchewan.

Cavell has developed a dominant land position in this area through the acquisition of over 125 sections of land. Early in 2002, Cavell entered into an agreement with the Little Pine First Nation covering approximately 30 sections of sparsely drilled land. Cavell subsequently shot seismic, drilled one gas well and identified five drillable locations for natural gas and heavy oil. The Little Pine area has the potential to drive Cavell's growth during 2003.

Later in the year, Cavell executed a 65 section farm-in agreement. Under this agreement, the Company had a 10 well drilling commitment which was fulfilled early in the first quarter of 2003. Cavell has identified considerable production potential in these lands and plans to expand its influence in the region through a series of rolling drilling options.

Cavell entered 2003 with more than 30 drillable locations in this region and natural gas production of approximately 5.5 mmcf/d (average for December 2002). In 2003 Cavell plans to drill between 15 and 20 wells, shoot $2.1 million of seismic and expand processing capacity in order to reach its 2003 year-end target of 13.0 to 15.0 mmcf/d.

Cavell's successful track record in this area combined with its infrastructure and dominant land position gives the Company a competitive advantage and provides a foundation for further expansion in West Central Saskatchewan. The Company plans to expand its prospect area, which will provide additional growth opportunities for 2003 and beyond.



Net Undeveloped Land:	**80,685 acres**
Total Net Land (open):	**7,212 acres**
Total Net Land (close):	**92,847 acres**
Reserves (proven):	**17.8 bcf**
Annual Average Production:	**0.7 mmcf/d**
Dec. 2002 Average Production:	**3.5 mmcf/d**
Initial Production Date:	**October 22, 2002**
Production Increase:	**100%**
Wells Drilled:	**31**
Success Rate:	**87%**

Profile

The Shackleton or 'Abbey' pool is a shallow Milk River Pool, which appears to be analogous to the sizeable Hatton Pool. Milk River wells in the Hatton pool typically have initial production rates in the range of 100 to 400 mcf/d and generate ultimate reserve recoveries between 1 to 3 bcf per section. The Milk River at Shackleton is a blanket formation similar in thickness and structure to that found in the Hatton Pool.

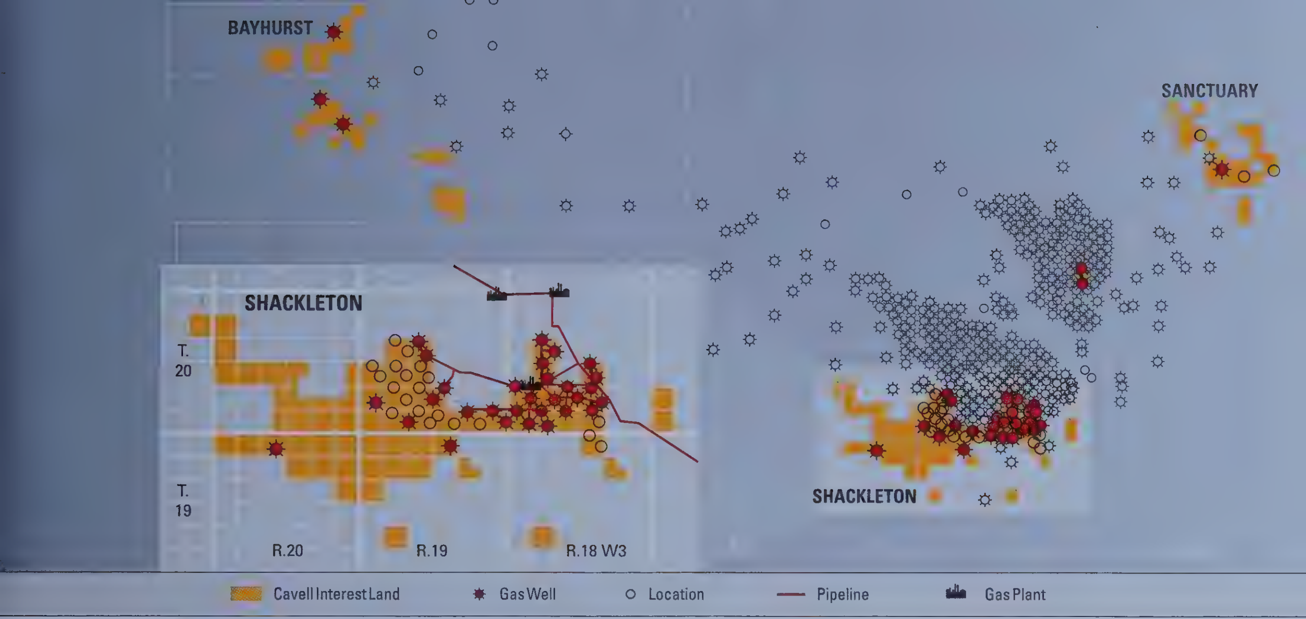
South West Saskatchewan

2002 Activity

- Acquired 125 sections of land
- Identified, developed and brought new Shackleton area to production
- Built 5.0 mmcf/d capacity plant at Shackleton
- Established commercial Milk River natural gas pools
- Capital expenditures of $12.5 million
- Identified over 100 drillable locations
- Significant reserve additions

Plans for 2003

- Expand production base westward at Shackleton
- Capital expenditures of $9.0 million
- Drill over 20 wells
- Potential plant expansion
- Increase production to 7.5 to 10.0 mmcf/d by year-end
- Two year production goal: 10.0 to 15.0 mmcf/d



In 2002, Cavell began its successful exploitation of this new land position, adding considerable reserves and production growth to the Company. The acquisition and development of the Shackleton area, acquired in early 2002, was a major accomplishment for Cavell. In late 2001, a significant opportunity in this area was identified and additional resources were devoted to quantify this opportunity. As a result, the Company was able to acquire an excellent initial position of approximately 50 sections of land in this rapidly developing play. Cavell has since expanded its holdings to over 125 sections of land in South West Saskatchewan.

Initial exploration at Shackleton involved a reconnaissance program of five wells, which led to the identification of the first development area and a second round of drilling to ascertain commercial development capability. Positive results led to a larger drilling program and the building of a gas plant and associated infrastructure to bring the area to production. In total, 26 wells were drilled in Shackleton in 2002: 21 wells on production, one dry well and four wells suspended, waiting for further infrastructure development. Cavell's activities in this area in 2002 resulted in reserve additions of 17.8 bcf, clearly validating the decision to enter this area.

Also in 2002, Cavell developed land positions on the northeast side of the Shackleton area. At Sanctuary, Cavell drilled one well which established the presence of commercial Milk River gas. Subsequently the Company acquired approximately 25 sections of land in this area and is planning a delineation program to identify the extent of the pool. Sanctuary is ideally situated as it straddles a major TransGas transmission line, facilitating transport of production to market in a timely low cost manner. Sanctuary has the potential to add sizeable reserves to the Company in the near future.

As a result of our success in 2002 Cavell is in the process of extending the development of its land at Shackleton, expanding the pool to the west, and developing new areas for additional reserves and production to the northeast. In the first quarter of 2003, Cavell added new reserves and production through drilling success as the Company continued to expand its production base westward into the heart of the Shackleton acreage block.

In 2003, over 20 wells will be drilled in the greater Shackleton area with additional development of natural gas processing capacity at Shackleton and Sanctuary. Cavell has budgeted $9.0 million in capital expenditures for this area with additional contingent spending for a development/drilling project and infrastructure at Sanctuary. The goal for South West Saskatchewan is to increase natural gas production to between 7.5 and 10.0 mmcf/d by 2003 year-end.

South West Saskatchewan has proven its capacity to add reserves and deliverability. This area will be a major contributor to long-term growth, increasing production to between 10.0 to 15.0 mmcf/d in the next two years. Further accessing the potential of this prospective property will have an impact on the growth of Cavell.

Profile

Cavell's original area of operation, South East Saskatchewan acts as a stable base of revenue that provides high quality drilling locations, long lived reserves and very high netbacks. South East Saskatchewan is a prolific area for medium and light qualities of crude oil drawn from medium depth (1,300 metres subsurface) horizontal wells in various Mississippian age formations. The majority of the Company's light oil production is derived from horizontal wells at Innes, Oakley and Stoughton.

Net Undeveloped Land:	**12,671 acres**
Total Net Land (open):	**35,031 acres**
Total Net Land (close):	**18,140 acres**
Reserves (proven):	**3.5 mmboe**
Annual Average Production:	**1,356 boed**
Dec. 2002 Average Production:	**1,214 boed**
Production Decrease:	**15%**
Wells Drilled:	**5**
Success Rate:	**100%**

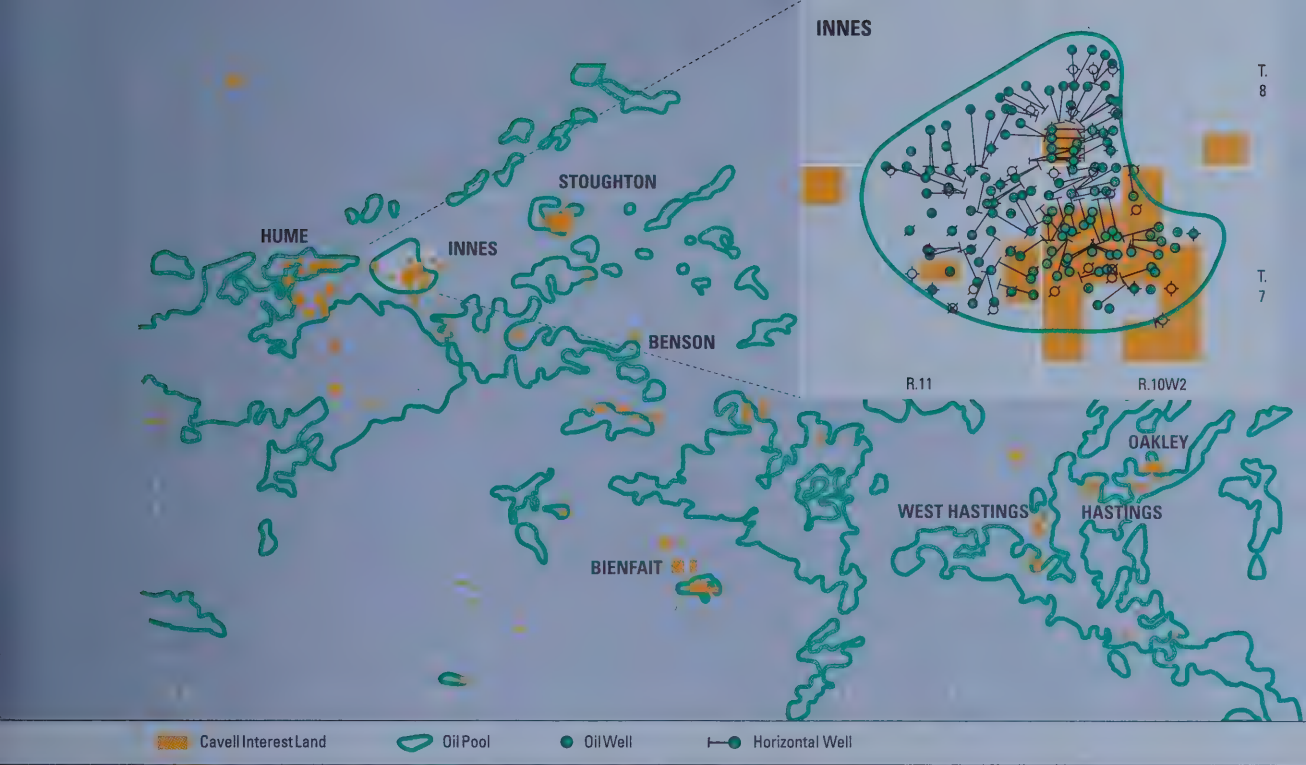
South East Saskatchewan

2002 Activity

- Drilled 5 successful wells (4 net)
- Contributed $10.6 million to cash flow
- Capital expenditures of $4.0 million

Plans for 2003

- Reinvest in the area
- Grow production and reserves
- Capital expenditures of $8.0 million



Cavell is fortunate that it continued to benefit from the large prospect inventory that it developed in South East Saskatchewan during the low oil price period of the late 1990's. This area has been a provider of cash flow for Cavell's high growth Western Saskatchewan natural gas areas over the past few years due to its high initial rates of production and netbacks. For example, Cavell drilled four and one half net horizontal wells at Oakley in 2001. The total capital expenditure of approximately $3.0 million generated over $8.0 million in cash flow. Of interest is the fact is that this activity occurred on a single quarter section (160 acres). South East Saskatchewan has the ability to deliver concentrated value in terms of reserves, production and cash flow.

In 2002, Cavell drilled five (four net) successful horizontal wells in South East Saskatchewan: four at Innes and one at Oakley. The objective over the past few years has been to maintain rates of production between 1,200 and 1,500 boed, utilizing excess cash flow to develop Western Saskatchewan natural gas assets. Management's intention was to maintain this strategy until those areas were able to self finance; that goal was reached in late 2002.

As a result, Cavell plans to reinvest capital into this area in 2003 to replace reserves and increase rates of production. Plans for South East Saskatchewan in 2003 include the drilling of five horizontal wells, land inventory expansion and new seismic, which could be exchanged for additional horizontal drilling if results warrant. Cavell will maintain its risk sensitive approach in this area, setting performance thresholds and benchmarks prior to committing additional expenditures. This strategy has worked well in Western Saskatchewan and will prove itself here, providing the highest possible rate of return while maintaining sensitivity to risk.

South East Saskatchewan continues to retain the ability to deliver concentrated value to the Company. Cavell's team holds a high degree of expertise in South East Saskatchewan with a history of delivering increases in reserves and production. Combined with this area's ability to provide results and sustain production for several years, Cavell anticipates growth through new pools and reserves, production and a larger drilling inventory in 2003.

Cavell's dedication to being a low cost producer entails using procedures that minimize expense. For example, the implementation of ploughing plastic flowlines has lowered capital requirements for gas gathering systems by 27 per cent.

Outlook for 2003

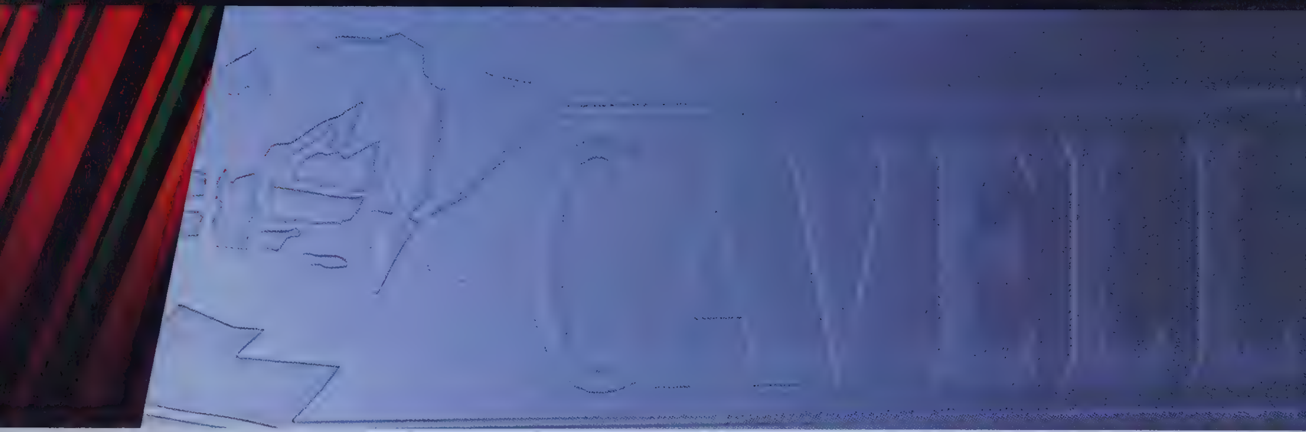
Cavell is well positioned through its financial and operational strength to continue to build on the successes of 2002. All of Cavell's three areas possess potential to deliver expansion and growth. The Company has a wealth of opportunities and is prepared to take action to increase the production and reserve growth momentum established in the fourth quarter of 2002.

In 2003, Cavell plans to drill 45 to 50 net wells, with 40 to 45 wells targeting natural gas and five light oil horizontal wells. The capital budget has been set at $28.0 million, which will be utilized for activities that maximize return on investment. Cavell will continue to focus on the wealth of opportunities in Western Saskatchewan while reinvesting in South East Saskatchewan to renew its reserves and rates of production.

In the first two months of 2003, Cavell drilled 16 wells with a 94 per cent success rate. This continued the drilling success of 2002, providing additional reserves and production for the Company. Cavell plans to drill an additional 15 wells in the second quarter of 2003, providing growth and setting up future drilling for new pools. At the same time, the Company will be evaluating the addition of new lands and infrastructure in order to meet required capacity for new production.

Cavell has identified potential new pools in all three areas of its business, setting the stage for accelerated growth in 2003. With strong results to date, the Company will continue to deliver on its promise to deliver return on activities.

Corporate Governance



Cavell believes corporate governance is essential in maintaining positive relationships and value to its shareholders, and is dedicated to managing the Company in a prudent and ethical manner.

Effective governance is about promoting corporate fairness, accountability, transparency and focusing on the rights and equitable treatment of stakeholders. It includes timely and accurate disclosure, the distribution of responsibilities and rights among the Board, management, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

The Board of Directors (Board) and members of management (Management) are committed to a high standard of corporate governance. As a result, Cavell has undertaken several actions during 2002 to ensure solid governance practices:

- Throughout the year, the Board reviewed changes and issues in corporate governance which they then focused on applying to Cavell's practices. One of the initiatives that the Board and its various committees initiated included a review of Board and committee mandates with the intent to revise them in 2003 to reflect best practices;
- Cavell's management team utilizes a Scenario Based Management* tool which provides insight and procedures for dealing with changing commodity price cycles;
- Management, along with the Board and key employees, undertake periodic strategic planning sessions in order to focus Cavell's direction and activities to maximize results;
- The audit committee initiated a policy of quarterly reviews of its statements with the Company's auditors to take effect in the first quarter of 2003; and
- Cavell works to create an environment of transparency for its shareholders. Management meets regularly with the investment community and provides open quarterly conference calls and updated information on its web site.

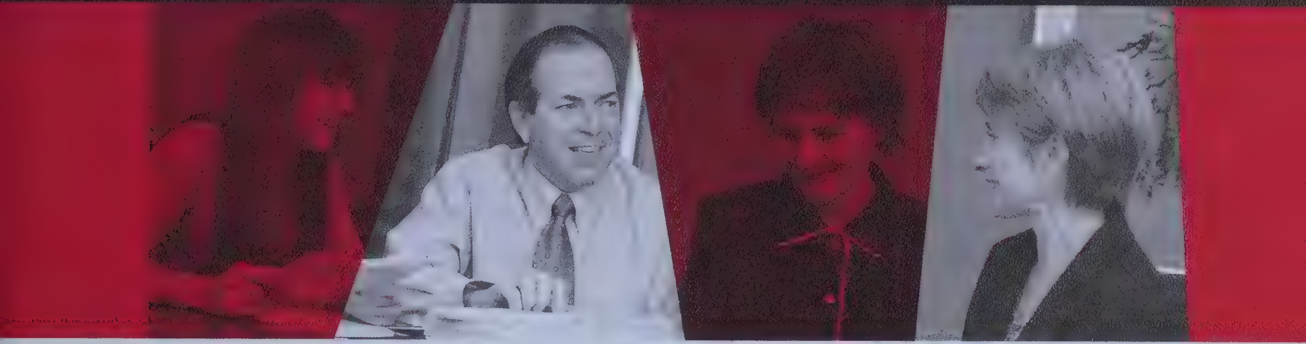
*Scenario Based Management (SBM™) is licensed to Cavell Energy Corporation, copyright 2000-2001, KPMG LLP and SBM Inc.

Board committees play a significant role in Cavell's effective corporate governance:

- Cavell's independent audit committee meets with the Company's financial personnel and auditors to review financial reporting practices, procedures and standards. In addition, it reviews the annual financial statements and the Company's reserve report, which have been evaluated by an independent firm;
- The human resources and compensation committee recommends to the Board on compensation issues relating to directors and senior managers, corporate succession matters and evaluates senior management performance; and
- The corporate governance committee examines and reports to the Board on all aspects of governance to increase the effectiveness of the Board.

Detailed information on Cavell's corporate governance is provided in the Company's Corporate Governance framework as found in the Management Information Circular and on the Company's web site.

Financial Review



SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

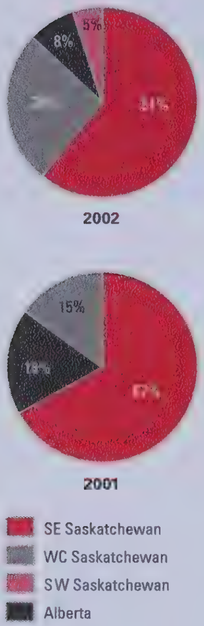
In the interest of providing shareholders and potential investors with information regarding Cavell, including management's assessment of future plans and operations, certain statements in this annual report relating to the period after December 31, 2002, including those appearing in the Management's Discussion and Analysis and the "Outlook" section, are forward-looking statements subject to risks and uncertainties. This disclosure contains certain forward-looking estimates that involve substantial known and unknown risks and uncertainties, certain of which are beyond Cavell's control, which may cause actual results, performance, levels of activity and achievements to differ materially from those expressed in or implied by such forward-looking statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; the results of exploration and development drilling and related activities; imprecision in reserve estimates; the production and growth potential of its various assets; foreign exchange or interest rates; stock market volatility; risks associated with hedging activities; and obtaining required approvals of regulatory authorities.

Although the Company believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Management's Discussion & Analysis

Average Production
(boed)



2002 Highlights

- **Natural gas volumes increased by 17%**
- **New Shackleton area added 262 mmcf of production in the fourth quarter**
- **West Central Saskatchewan volumes grew by 70% on a boe basis**
- **Finding and development costs on a proven basis are \$7.32 per boe**
- **Market capitalization increased to \$51.2 million, calculated from a \$1.37 share value as of December 31, 2002**

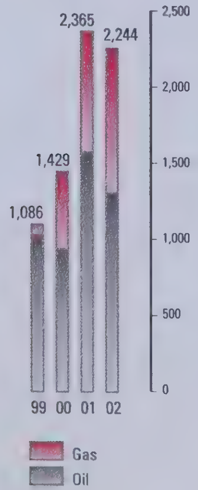
The following discussion and analysis of financial results should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year-ended December 31, 2002. This discussion offers Management's opinion of Cavell's historical financial and operating results and is based on information available at March 5, 2003.

Where amounts are expressed on a barrel of oil equivalent basis (boe), gas volumes have been converted to barrels of oil at six thousand cubic feet per barrel (6:1).

FINANCIAL REVIEW

The continued focus and implementation of Cavell's business plan targeted towards balance sheet strength, capital risk minimization and rate of return maximization, and hallmarked by its sensitivity to the cyclical nature of oil and natural gas prices, added significant value to the Company in 2002. Cavell built on its success of 2001, creating a solid foundation in which to grow moderately in 2002 and significantly in the future. Through its actions, the Company further expanded its inventory of assets, providing growth in both natural gas volumes and total reserves. Cavell's strength and potential is starting to be reflected in the market, generating returns for the Company's shareholders. Cavell's determination to provide continued value through stewardship will continue to steer the Company towards maximizing the wealth of its current asset base as well as new opportunities while maintaining a strong financial position.

Average Production
(boed)



VOLUMES

Total oil sales volumes decreased 17 per cent to 1,294 boed in 2002 from 1,552 boed in the previous year. The majority of Cavell's oil production came from South East Saskatchewan in 2002. The decrease in oil sales volumes was due in part to the natural production declines associated with Oakley's horizontal wells drilled in 2001 which declined from 823 boed in 2001 to 493 boed in 2002. The successful Innes horizontal well drilling program partially offset this decline by adding 227 boed in the year.

The increase in natural gas volumes experienced in 2002 are expected to continue into 2003 based on fourth quarter 2002 results and future drilling. Production increased to 7,922 mcf/d in the fourth quarter as compared to the third quarter's average natural gas production of 3,891 mcf/d. This increase was as a result of South West Saskatchewan gas being placed on production in late October 2002 and new production from the West Central Saskatchewan drilling program.

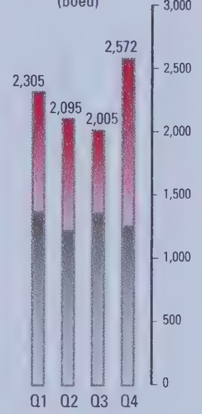
Total production volumes are slightly lower at 2,244 boed than the projected target of 2,300 boed for 2002 due to the sale of Cavell's Alberta assets in the second quarter and management's decision to delay the fall drilling program in order to take advantage of Saskatchewan's new royalty regime announced in October of 2002. This was a short term decrease with average daily production increasing to 2,572 boed in the fourth quarter, providing momentum towards Cavell's 2003 average production goal of 3,500 boed.

	2002			2001		
Volumes – Oil and Gas	**bbls**	**mcf**	**boe**	bbls	mcf	boe
SE Saskatchewan	**465,987**	**174,540**	**495,077**	539,774	242,636	580,214
WC Saskatchewan	**6,120**	**1,248,597**	**214,220**	26,767	595,777	126,063
SW Saskatchewan	**–**	**261,951**	**43,658**	–	–	–
Alberta	**170**	**395,911**	**66,155**	100	941,734	157,056
	472,277	**2,080,999**	**819,110**	566,641	1,780,147	863,333

Production (Annual)	**2002**	2001	% Change
Crude oil (bbls)	**472,277**	566,641	(17)
Natural gas (mcf)	**2,080,999**	1,780,147	17
Total (boe 6:1)	**819,110**	863,333	(5)

Production (Daily)	**2002**	2001	% Change
Crude oil (bbls)	**1,294**	1,552	(17)
Natural gas (mcf)	**5,701**	4,877	17
Total (boed 6:1)	**2,244**	2,365	(5)

2002 Quarterly Production (boed)



REVENUES

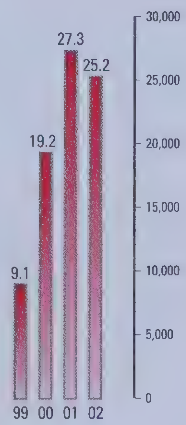
Petroleum and natural gas sales after hedging activities decreased to $25.2 million or an eight per cent reduction from 2001 ($27.3 million) as a result of the 17 per cent decrease in oil production volumes and lower natural gas prices. This was partially offset by the 17 per cent increase in gas sales volumes.

Revenue from crude oil decreased 10 per cent to $17.0 million (2001: $18.9 million) due to production decreases from 1,552 bbl/d in 2001 to 1,294 bbl/d. Production decreases were as a result of natural declines largely attributed to the Oakley production gained from the successful drilling of four horizontal oil wells in 2001. Overall, crude oil sales accounted for 68 per cent of the Company's petroleum and natural gas revenues.

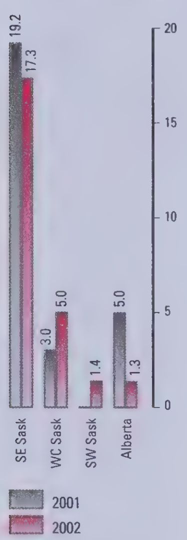
Natural gas sales increased to 32 per cent of the Company's total sales revenues in 2002. Although natural gas production volumes increased over 2001, revenues decreased slightly to $8.2 million in 2002 from $8.4 million for 2001 due to lower natural gas prices of $3.92 per mcf as compared to $4.71 per mcf in 2001.

Net settlement receipts on hedging activities in 2002 were in the amount of $0.1 million in 2002 ($0.1 million payment in 2001) or $0.16 per boe (2001: $0.13 per boe). Cavell will continue to monitor commodity prices and take action when appropriate to protect the Company from price volatility.

Revenue ($ millions)



Revenue by Area
($ millions)



Revenue - Oil and Gas	2002			2001		
($000s)	Oil	Gas	Total	Oil	Gas	Total
SE Saskatchewan	$ 16,877	$ 470	$ 17,347	$ 18,402	$ 795	$ 19,197
WC Saskatchewan	161	4,832	4,993	394	2,605	2,999
SW Saskatchewan	–	1,365	1,365	–	–	–
Alberta	5	1,326	1,331	2	4,962	4,964
Settlement amounts on hedges	(40)	169	129	85	28	113
	$ 17,003	$ 8,162	$ 25,165	$ 18,883	$ 8,390	$ 27,273

Sales Variance Analysis

Improving shareholder disclosure, Cavell has provided the following analysis to better exemplify the change in sales revenue.

Sales Variance Analysis	$000s	% Change
Petroleum and natural gas sales - 2001	$ 27,273	
Reduction due to oil sales volumes	(2,818)	(10)
Increase due to gas sales volumes	1,118	4
Increase due to realized oil price	1,064	4
Reduction due to realized gas price	(1,488)	(6)
Impact of hedging activities	16	–
Total decrease, net	(2,108)	(8)
Petroleum and natural gas sales - 2002	**$ 25,165**	

As stated, decreases are primarily due to the reduction in sales volumes (natural declines at Oakley and sale of Alberta properties) and commodity prices (specifically natural gas prices which improved in the fourth quarter and into 2003). Cavell anticipates that sales revenues will increase in 2003 as compared to 2002 levels with the addition of new production.

Pricing

Cavell's oil price experienced an increase of eight per cent to $36.00 per barrel from $33.33 per barrel in 2001. Although natural gas prices declined on a yearly basis from $4.71 to $3.92 per mcf, gas prices recovered to above $5.00 per mcf in the fourth quarter of 2002.

Average Realized Prices

Prices	2002	2001	% Change
WTI oil price - $US/barrel	$ 26.11	$ 25.86	(1)
Exchange rate	0.64	0.65	(2)
WTI oil price - $Cdn	$ 40.80	$ 39.78	3
Quality differential	(4.80)	(6.45)	(26)
Cavell oil price - $Cdn/barrel	$ 36.00	$ 33.33	8
Gas price - $Cdn/mcf	$ 3.92	$ 4.71	(17)

	2002			2001		
Price By Product	bbl	mcf	boe	bbl	mcf	boe
SE Saskatchewan	$ 36.22	$ 2.69	$ 35.04	$ 34.09	$ 3.28	$ 33.09
WC Saskatchewan	26.35	3.87	23.31	14.73	4.37	23.79
SW Saskatchewan	–	5.21	31.26	–	–	–
Alberta	30.41	3.35	20.12	22.49	5.27	31.61
Average	$ 36.00	$ 3.92	$ 30.72	$ 33.33	$ 4.71	$ 31.59

ROYALTIES

Crown royalties were 33 per cent higher in 2002 due to the benefit received in 2001 from new horizontal wells placed on production in Saskatchewan having been fully utilized by three of the four Oakley wells drilled. These wells reached the 75,000 barrels of production ceiling required for the lower rate and are now paying normal Saskatchewan royalty rates. Freehold and gross overriding royalties were 23 per cent lower year-over-year owing to reduced revenue from wells subject to these royalties.

In October 2002, the Saskatchewan government announced a revised royalty structure aimed at stimulating drilling activities. The royalty structure reduces royalties on all new wells rig released after October 1, 2002, and is anticipated to increase cash flows and rates of return for newly drilled wells. Although the rate is dependent upon the nature of the project, commodity prices and production rates, it resulted in a savings to Crown royalties in the range of 10 to 20 per cent for new wells rig released since the October initiation.

	2002			2001		
Total Royalty By Product	**bbl**	**mcf**	**boe**	bbl	mcf	boe
SE Saskatchewan	**$ 6.59**	**$ 0.06**	**$ 6.23**	$ 5.04	$ 0.08	$ 4.72
WC Saskatchewan	**1.82**	**1.36**	**7.96**	0.91	1.66	8.06
SW Saskatchewan	**–**	**1.17**	**7.01**	–	–	–
Alberta	**0.41**	**0.64**	**3.84**	0.62	1.00	6.02
Average	**$ 6.53**	**$ 1.09**	**$ 6.53**	$ 4.84	$ 1.10	$ 5.45

PRODUCTION EXPENSES

Production expenses per barrel of oil equivalent increased to $5.94 per boe in 2002 (2001: $5.17 per boe). This 15 per cent increase per boe was largely due to rising production expenses per boe in South East Saskatchewan which experienced higher production declines while operating costs increased.

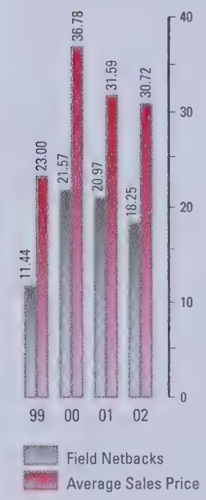
In 2002, Cavell built new gas plants in South West and West Central Saskatchewan. Since these plants were new in 2002, some were not operating at full capacity. As a result of planned drilling for 2003, these gas plants will be operated at a higher efficiency, helping to reduce operating costs.

Production Expenses ($000s)	**2002**	2001	% Change
South East Saskatchewan	**$ 3,651**	$ 3,232	13
West Central Saskatchewan	**622**	520	20
South West Saskatchewan	**184**	–	100
Alberta	**412**	716	(42)
	$ 4,869	$ 4,468	9

Production Expenses Per Boe	**2002**	2001	% Change
South East Saskatchewan	**$ 7.37**	$ 5.57	32
West Central Saskatchewan	**2.90**	4.12	(30)
South West Saskatchewan	**4.20**	–	100
Alberta	**6.23**	4.56	37
Average	**$ 5.94**	$ 5.17	15

Cavell will continue to focus on maintaining production expenses below a $6.00 per boe level as it expands its growth in 2003. As production from new drilling and capital programs come on stream, operating costs may be reduced on a boe basis as the Company benefits from operating efficiencies.

Netback/Price Comparison
($/boe)



NETBACKS

In 2002, Cavell's netbacks at a field level were $18.25 per boe, a decrease of 13 per cent from the $20.97 per boe attained in 2001. A major factor in this decrease was the 40 per cent increase in Crown royalties on a boe basis.

The new 4th tier Crown royalty rates will reduce royalties in 2003, increasing field netbacks. If the improved commodity prices continue in 2003, netbacks will increase when compared to 2002.

Netbacks - ($/boe)	**2002**	2001	% Change
Volume (boed)	**2,244**	2,365	(5)
Volume (boe)	**819,110**	863,333	(5)
Average selling price	**$ 30.72**	$ 31.59	(3)
Crown royalties	**5.03**	3.60	40
Other royalties	**1.50**	1.85	(19)
Production expenses	**5.94**	5.17	15
	$ 18.25	$ 20.97	(13)

CORPORATE EXPENSES

General and Administration Expenses

With the Company's growth into new operational areas in 2002, Cavell determined a need for additional employees in order to effectively steward its resources. As a result, Cavell increased its average number of employees from 13 to 17 in the year. In addition, expenses increased due to the higher level of public communication and disclosure undertaken with the Company's shareholders and key stakeholders to improve investor relations activities. These two factors, in combination with higher lease costs, contributed to the increase in general and administration expenses in 2002.

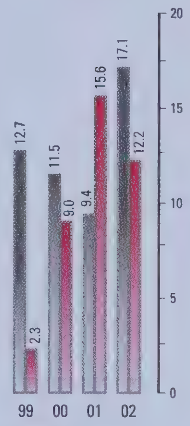
G&A Expense ($000s)	**2002**	2001	% Change
Gross expense	**$ 2,900**	$ 2,752	5
Less:			
Overhead recoveries	**162**	154	5
Capitalized G&A	**987**	1,164	(15)
Net expense	**$ 1,751**	$ 1,434	22
Average cost ($ per boe)			
Gross	**$ 3.54**	$ 3.19	11
Net	**$ 2.14**	$ 1.66	29
Average number of employees			
Head office	**15**	12	25
Field	**2**	1	50
Total Employees	**17**	13	31

Interest Expense

Total interest expense decreased to $0.6 million in 2002 from $0.8 million in the prior year due to a 38 per cent decrease in lending rates during the year from eight per cent to five per cent. This was partially offset by a 14 per cent increase in average debt outstanding during the year.

Interest	2002	2001
Interest ($000s)	$ 589	$ 764
Average debt outstanding ($000s)	$ 11,442	$ 9,998
Average interest rate	5%	8%

Total Debt/Cash Flow Comparison
($ millions)



Depletion and Depreciation Expense

Total depletion and depreciation expense increased to $6.7 million in 2002 compared with $6.2 million in 2001, due primarily to a 19 per cent rise in the depletion and depreciation rate for 2002. The rate increased as a result of the disposal of Alberta assets in combination with the increase in PUD Capital* and land and facility costs. The increase in land and assets will create additional opportunities for future production growth.

	2002		2001	
Depletion and Depreciation Expense	$000s	Per boe	$000s	Per boe
Depletion and depreciation	$ 6,257	$ 7.64	$ 5,545	$ 6.42
Provision for future site restoration and abandonment	442	0.54	641	0.74
	$ 6,699	$ 8.18	$ 6,186	$ 7.16

* PUD Capital is the estimated future capital requirement to recover the Company's undeveloped reserves, as determined by independent evaluation

Finding and Development Costs

Finding and development costs in 2002 were excellent with an all-in total proved finding and development cost of $7.32 per boe including discoveries, acquisitions, dispositions, revisions and PUD Capital*. On a year to year basis, finding and development costs decreased by 78 per cent on an established basis to $7.05 per boe for 2002 as compared to 2001.

Cumulative three-year finding and development costs are $10.13 per boe on a total proved basis and $9.65 per boe on an established basis, decreases of approximately 40 per cent respectively.

F&D Costs (All Capital)	2002	2001	2000-2002
Proved:			
Total Capitalized Costs ($000s)	$ 25,845	$ 16,999	$ 52,071
Net reserve additions & revisions (mboe)	3,533	593	5,139
Total Proved	$ 7.32	$ 28.67	$ 10.13
Established*:			
Total Capitalized Costs ($000s)	$ 26,414	$ 16,900	$ 52,641
Net reserve additions & revisions (mboe)	3,747	528	5,454
Established*	$ 7.05	$ 32.01	$ 9.65

F&D Costs (Excluding Facilities)			
Proved	$ 6.53	$ 28.18	$ 9.50
Established*	$ 6.31	$ 31.48	$ 9.06

*Established = Proven + 1/2 Probable

In 2002, Cavell included PUD Capital* in the calculation of its finding and development costs as suggested by a recommended disclosure standard by the Alberta Securities Commission task force to the Canadian Securities Administrators, to ensure reporting consistency with that of the industry and to better reflect the Company's finding costs. This standard ensures the appropriate accrual of PUD Capital* into the finding and development equation along with the associated PUD reserves and provides appropriate disclosure to shareholders.

* PUD Capital is the estimated future capital requirement to recover the Company's undeveloped reserves, as determined by independent evaluation

Ceiling Test

In accordance with its accounting policy, Cavell carries out a ceiling test to compare the carrying value of its petroleum and natural gas property and equipment with an estimate of future net cash flow from production of proven reserves, less future site restoration and abandonment costs, capital costs, general and administration expenses, financing costs, development costs of proven undeveloped reserves and income taxes, based on year-end prices and costs without escalating or discounting. The ceiling test is a cost recovery test and is not intended to result in an estimate of the fair market value of petroleum and natural gas properties.

Estimated future net revenues for purposes of the ceiling test exceed the carrying value of property, plant and equipment at December 31, 2002, by $66.0 million. At December 31, 2002, the prices used in the ceiling test determination were Cdn $40.09 per barrel of oil and Cdn $5.36 per mcf of natural gas. At this time, a reduction of Cdn $1.00 in the price of oil would result in a reduction of $1.9 million to the "cushion" while a $0.10 reduction in the price of natural gas would result in a decrease of $1.4 million to the "cushion".

Taxes

In 2002, Cavell's total taxes decreased by 19 per cent to $3.2 million from $3.9 million in 2001 due to a decrease in future income tax expense. Cavell's effective income tax rate for 2002 increased to 46 per cent (2001: 37 per cent) as a direct result of the reduction in the resource allowance caused by lower revenue in 2002.

Cavell has incurred capital taxes of $0.4 million in 2002 which included a 3.6 per cent resource royalty surcharge on gross revenues earned in Saskatchewan. Future Saskatchewan capital taxes will be reduced as the resource royalty surcharge was decreased to 2.0 per cent for all new wells drilled after October 1, 2002.

	2002		2001	
Taxes	**$000s**	**Tax Rate**	$000s	Tax Rate
Future income taxes	**$ 2,720**	**46%**	$ 3,596	37%
Capital taxes	**449**	**8%**	340	3%
Total taxes	**$ 3,169**	**54%**	$ 3,936	40%

In addition, Cavell is impacted by the Large Corporations Tax levied by the federal government which has increased in 2002 owing to the increased capital tax base of the Company. The federal government has announced the intent to reduce income tax rates and large corporation tax rates; the exact timetable and methodology for these rate reductions has not been enacted as of yet.

The full amount of the future income tax effect of the renunciation of expenditures of $1.0 million (2001: $1.3 million) has been recorded in the financial statements as a reduction to share capital and an increase to the future income tax liability as at December 31, 2002 and 2001. In addition, Cavell is required to incur eligible exploration expenditures of approximately $2.3 million during 2003 to satisfy the terms of the 2002 flow-through share offering.

Tax Pools	Rate %	Amount ($millions)
Canadian exploration expense*	100	$ 6.7
Canadian development expense	30	15.4
Canadian oil and gas property expense	10	7.1
Undepreciated capital cost	10 - 30	11.6
Non-capital losses	100	3.9
Total		$ 44.7

*Tax pool has been reduced by $2.3 million giving effect to the 2002 flow-through issue

CASH FLOW & EARNINGS

Cash flow from operations decreased 22 per cent to $12.2 million in 2002 from $15.6 million in 2001 while net earnings decreased to $2.7 million in 2002 from $5.8 million in 2001. On a per share basis, basic cash flow from operations decreased 28 per cent to $0.34 per share, while basic earnings per share decreased to $0.08 per share for the year 2002 compared to $0.18 per share in the previous year.

($000s)	**2002**	2001	% Change
Cash flow from operations	**$ 12,203**	$ 15,566	(22)
Less:			
Depletion and depreciation	**6,257**	5,545	13
Site restoration	**442**	641	(31)
Future taxes	**2,720**	3,596	(24)
Stock-based compensation	**43**	–	100
Net earnings	**$ 2,741**	$ 5,784	(53)

In addition to production decreases, lower commodity prices and higher general and administration expenses also contributed to the reduction in cash available for reinvestment. Management's decision to focus on activities that would generate long-term growth affected earnings over the first half of 2002.

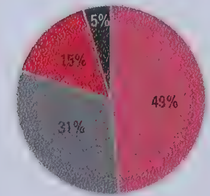
Earnings were impacted by several factors: decreases in sales volumes from natural production declines associated with Oakley's horizontal wells drilled in 2001 (partially offset by Innes volumes) and the sale of Cavell's Alberta Bruce assets; management's decision to delay the 2002 fall drilling program in order to take advantage of Saskatchewan's new royalty regime; and higher effective 2002 tax rates. Although 2002 net earnings per share decreased to $0.08 from $0.18 in 2001, the fourth quarter 2002 net earnings per share improved to $0.03 from $0.00 for the fourth quarter of 2001.

Cavell anticipates improvements in cash flow and earnings in 2003 due to higher production volumes and development in new areas.

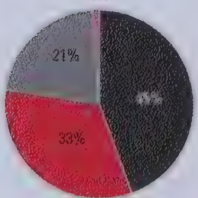
Boe ($/boe)	**2002**	2001	% Change
Netbacks - field level	**$ 18.25**	$ 20.97	(13)
General and administration	**2.14**	1.66	29
Interest	**0.72**	0.89	(19)
Capital taxes	**0.54**	0.39	38
Cash available for reinvestment	**$ 14.85**	$ 18.03	(18)

LIQUIDITY & CAPITAL RESOURCES

Capital Asset Additions
($000s)



2002



2001

SE Saskatchewan
WC Saskatchewan
SW Saskatchewan
Alberta

Additions to Capital Assets

Cavell invested $22.2 million (net of proceeds of $4.8 million) in property, plant and equipment, an increase of 35 per cent from 2001. These expenditures were funded by cash flow from operations of $12.2 million, total debt of $7.7 million and financing activities of $2.3 million. These expenditures were undertaken in order to capture opportunities identified throughout the year. Of most significance was to impact production through increased drilling (gained through an 88 per cent drilling success rate) and to increase assets through Saskatchewan land sales (achieving a dominant land position in Cavell's operating areas).

The increase in capital assets resulted in a 36 per cent increase over the year to $59.4 million from $43.6 million in 2001.

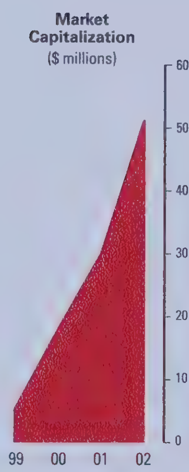
Capital Asset Additions ($000s)	**2002**	2001	% Change
South East Saskatchewan	**$ 3,958**	$ 5,347	(26)
West Central Saskatchewan	**8,082**	3,475	133
South West Saskatchewan	**12,536**	154	8,040
Alberta	**1,185**	7,189	(84)
Capitalized Overhead	**979**	1,197	(18)
Corporate	**223**	144	55
Total additions to capital assets	**26,963**	17,506	54
Proceeds on sale of capital assets	**(4,812)**	(1,120)	330
Net additions to capital assets	**$ 22,151**	$ 16,386	35

Cavell's 2003 capital expenditure budget is estimated at $28.0 million which will be used largely to develop a second new natural gas pool in Saskatchewan, further develop the potential of South East Saskatchewan and new opportunities. This budget is subject to adjustment based on the impact of changing commodity prices, unforeseen events and other risk factors.

Equity Capital

Cavell's common shares were listed for trading on the Toronto Stock Exchange on October 31, 1996. In December 2002, 1,227,000 flow-through Common Shares were issued for gross proceeds of $2.3 million. These proceeds were utilized initially to reduce indebtedness and ultimately to fund the continued exploration of Cavell's oil and natural gas properties.

The Company's market capitalization at December 31, 2002 was $51.2 million, calculated from a close of $1.37 per share value as of that date.



2002 Trading History	Q1	Q2	Q3	Q4	Year
High	$ 1.19	$ 1.15	$ 1.12	$ 1.59	$ 1.59
Low	$ 0.66	$ 0.82	$ 0.77	$ 1.05	$ 0.66
Close	$ 1.08	$ 0.85	$ 1.05	$ 1.37	$ 1.37
Volume (000s)	4,333	3,602	2,750	6,254	16,938

Bank Debt

In 2002, Cavell increased bank debt by $6.8 million in order to act on opportunities that appeared (e.g. purchases at lower commodity cycle prices). Total debt outstanding at December 31, 2002, was $17.1 million, comprised of $15.6 million of bank debt and a working capital deficit (excluding bank debt) of $1.5 million.

The Company has a $25.0 million revolving operating demand loan facility. The revolving operating demand loan bears interest at bank prime rates, and is adjusted quarterly based on debt to cash flow ratios. The loan is secured by all of the Company's assets with a first floating charge debenture and a general security agreement. A review of these borrowing arrangements based on an engineering evaluation of the Company's oil and gas properties is scheduled on or before May 1, 2003. No principal payments are expected as long as Cavell continues to meet existing covenants. Cavell's goal is to keep bank debt on a forward basis to be no greater than 1.5 times cash flow.

The debt is classified as a current liability in 2002 to conform to accounting principles effective January 1, 2002, and was retroactively applied.

CORPORATE GOVERNANCE

The Board of Directors (the "Board") and senior management are committed to corporate governance, seeking to keep abreast of issues and achieve best practices for Cavell's shareholders. By striving towards best practices, processes are defined and strengthened while enhancing management efforts to increase shareholder value.

Throughout the year, the Board reviewed changes and issues in corporate governance which they then focused on applying to Cavell's practices. One of the initiatives that the Board and its various committees initiated included a review of Board and committee mandates with the intent to revise them to reflect best practices in 2003.

The management team of Cavell utilizes a Scenario Based Management tool which provides insight and procedures for dealing with changing commodity price cycles. They, along with the Board and key employees, undertake periodic strategic planning sessions to focus Cavell's direction and activities in order to maximize results.

Board committees play a significant role in effective corporate governance. Cavell's independent audit committee meets with the Company's financial management personnel and auditors to review financial reporting practices, procedures and standards. In addition, it reviews the annual financial statements and the Company's reserve report, of which 100 per cent of the Company's reserves have been evaluated by an independent firm.

In accordance with the guidelines of the Toronto Stock Exchange, Cavell describes its corporate governance program in its Management Information Circular. Interested parties can refer to it for additional detail.

BUSINESS RISK

Crude oil and natural gas exploration, production, acquisition and marketing operations involve a number of business and financial risks, some of which are beyond the Company's control. The principal risk factors associated with the industry include, but are not limited to, the following:

- Uncertainty of finding new reserves
- Instability of commodity prices
- Business factors such as competition, supply and transportation
- Interest rates and foreign exchange rates
- Political stability
- Seasonal changes in demand resulting from weather patterns which influence commodity prices
- The value of the Canadian dollar, which is influenced by economic and political factors, impacting crude oil and natural gas sales

These risks can materially affect performance and financial results. Cavell has taken steps to mitigate these risks through various strategies; these include, but are not limited to the following actions:

- Employing a team of highly competent professional staff
- Utilizing equity and cash flow from operations to fund capital expenditures in order to minimize the burden of debt
- Performing extensive geological, geophysical, engineering and environmental analyses before committing to drilling new prospects
- Utilizing various procedures to ensure a suitable balance between risk and reward
- Operating substantially all of its properties, exploration and development programs, providing control over drilling locations, direction, timing and capital commitments
- Focusing on areas in which the geology and prospects are well understood and there is a high level of expertise within Cavell
- Generating exploration prospects internally
- Utilizing current technological to reduce risk and increase the probability of success
- Entering into a number of short-term financial derivatives for hedging purposes in order to minimize exposure to commodity price fluctuations

Historically, regulatory intervention and taxation have had a significant impact on the oil and natural gas industry. However, with the deregulation of the industry which began in 1985 and stable taxation levels, there is currently a reasonable operating environment in Canada for financially healthy companies. Nonetheless, the potential exists for this operating environment to change due to changes in taxation and energy policy.

Environmental Risk

The industry is subject to extensive regulations imposed by governments related to the protection of the physical environment. Environmental legislation in Western Canada has undergone major revisions with more stringent environmental standards and compliance. The Company is committed to maximizing shareholder value in an environmentally and socially responsible and safe manner, protecting the physical environment wherever it operates. To that end, Cavell has instituted a series of controls and procedures with respect to environmental protection that meet the standards of the Environmental Code of Practice published by the Canadian Association of Petroleum Producers.

The estimated liability for future abandonment and restoration costs is reviewed annually and is recorded in accordance with recommendations of the Canadian Institute of Chartered Accountants. Total future costs are estimated to be $6.6 million over the life of the oil and gas properties of which $2.8 million has been recorded as a long-term liability, with the balance to be spent over the remaining life of the assets.

The recent ratification of the Kyoto Agreement by the federal government has brought environmental concerns to the forefront of current affairs. As a company devoted to the development of energy resources, Cavell is concerned about the impact of this agreement on the Company and the industry as a whole. The complexity of this issue makes it difficult to predict its future impact to the Company. At this time, the Kyoto Agreement has no effect on present business nor does the Company see any impact in the immediate future. As the terms of the agreement and its effect to Canadian business becomes clearer, Cavell will advise its shareholders of any potential impact.

Sensitivity Analysis

The Company's earnings and cash flow from operations are highly sensitive to changes in factors that are beyond its control. An estimate of the Company's sensitivities to changes in commodity prices is shown in the table below:

	Cash Flow from Operations			Net Earnings	
Business Environment	Price Change	$000s	$/share basic	$000s	$/share basic
Price per Barrel of Oil (US$ WTI)	$ 1.00	$ 446	$ 0.01	$ 241	$ 0.01
Price per Mcf of Natural Gas (Cdn$ AECO)	$ 0.10	$ 119	$ 0.00	$ 65	$ 0.00

Management's Report

The accompanying financial statements and all the other information in this Annual Report are the responsibility of the management of Cavell Energy Corporation. The section entitled "Management's Discussion and Analysis" reflects the opinions of management of the current and future trends within the oil and gas industry and the impact these may have on Cavell Energy Corporation.

The financial statements have been prepared by management in accordance with those accounting principles generally accepted in Canada. The Company's systems of internal control have been created and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management and to allow preparation of financial statements in accordance with the Company's accounting policies. Certain estimates are made by management in the preparation of the financial statements. In management's opinion, the financial statements have been prepared within reasonable limits of materiality and within a framework of the significant accounting policies summarized in the notes to the financial statements.

KPMG LLP, an independent firm of chartered accountants, have been appointed by the shareholders to examine the financial statements and to report to the shareholders. The Audit Committee, consisting of a majority of non-management directors, met with KPMG LLP and with management to discuss the overall scope of the audit and to review the financial statements. The Audit Committee has reported its findings to the Board of Directors, who have approved the financial statements.

Murray D. McCartney
President and Chief Executive Officer

Arthur J.G. Madden
Vice President and Chief Financial Officer

Calgary, Canada
March 5, 2003

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Cavell Energy Corporation as at December 31, 2002 and 2001, and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 5, 2003

Consolidated Balance Sheets

(thousands of Canadian dollars)

As at December 31,	2002	2001
Assets		
Current assets:		
Cash	**$ 856**	$ 1,069
Accounts receivable	**4,112**	2,931
Prepaid expenses and deposits	**242**	117
	5,210	4,117
Capital assets (note 3)	**59,421**	43,561
	$ 64,631	$ 47,678
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 6,751**	$ 4,696
Bank debt (note 4)	**15,600**	8,800
	22,351	13,496
Provision for future site restoration	**2,794**	2,386
Future income taxes (note 6)	**4,848**	1,166
Shareholders' equity:		
Share capital (note 5)	**36,080**	34,813
Deficit	**(1,442)**	(4,183)
	34,638	30,630
	$ 64,631	$ 47,678

See accompanying notes to consolidated financial statements

On behalf of the Board:

Murray D. McCartney
Director

Glen A. Volk
Director

Consolidated Statements of Earnings and Deficit

(thousands of Canadian dollars, except share data)

Years ended December 31,	2002	2001
Revenues:		
Petroleum and natural gas sales	$ 25,165	$ 27,273
Less royalties	5,347	4,701
	19,818	22,572
Expenses:		
Production	4,869	4,468
General and administration	1,751	1,434
Interest	589	764
Depletion and depreciation	6,257	5,545
Site restoration	442	641
	13,908	12,852
Earnings before taxes	5,910	9,720
Taxes (note 6):		
Capital taxes	449	340
Future income taxes	2,720	3,596
	3,169	3,936
Net earnings for the year	2,741	5,784
Deficit, beginning of year	(4,183)	(9,967)
Deficit, end of year	$ (1,442)	$ (4,183)
Earnings per Common Share (note 5):		
Basic	$ 0.08	$ 0.18
Diluted	$ 0.07	$ 0.17
Weighted average number of Common Shares outstanding during the year	36,123,551	32,862,553

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(thousands of Canadian dollars, except share data)

Years ended December 31,	2002	2001
Cash provided by (used in):		
Operations:		
Net earnings for the year	$ 2,741	$ 5,784
Items not involving cash:		
Depletion and depreciation	6,257	5,545
Site restoration	442	641
Future income taxes	2,720	3,596
Stock-based compensation	43	–
Cash flow from operations	12,203	15,566
Changes in non-cash working capital	(213)	(1,200)
	11,990	14,366
Financing:		
Borrowing (repayment) of bank debt	6,800	(878)
Share capital, net of issue costs	2,186	2,953
	8,986	2,075
Investments:		
Additions to capital assets	(26,963)	(17,506)
Proceeds on disposal of capital assets	4,812	1,120
Changes in non-cash working capital	962	1,014
	(21,189)	(15,372)
Increase (decrease) in cash	(213)	1,069
Cash, beginning of year	1,069	–
Cash, end of year	$ 856	$ 1,069
Cash flow from operations per Common Share (note 5):		
Basic	$ 0.34	$ 0.47
Diluted	$ 0.33	$ 0.46
Supplemental disclosure of cash flow information:		
Cash interest paid	$ 534	$ 790

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

(Tabular amounts in thousands of Canadian dollars, except share data)

Note 1. BASIS OF PRESENTATION:

The Company is engaged in the acquisition, development and production of petroleum and natural gas properties in the Western Canadian sedimentary basin. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Note 2. SIGNIFICANT ACCOUNTING POLICIES:

As a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions, which have been made using careful judgment. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Capital assets:

The Company follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized. Such costs include land acquisition costs, cost of drilling both productive and non-productive wells and related production equipment, lease rental costs on non-producing properties, geological and geophysical expenses and general and administrative costs related to exploration and development activities.

Capitalized costs, excluding costs relating to unproven properties and salvage values, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

The Company applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at year-end prices and include an allowance for estimated future general and administrative expenses, interest expense, income taxes, and future site restoration costs.

Gains or losses on the disposition of oil and gas properties are not recognized except under circumstances that result in a change in the depletion rate of 20% or more.

Depreciation of furniture and office equipment is provided using the straight-line method based upon estimated useful lives at rates of 10% to 30%.

(b) Interest in joint ventures:

Substantially all of the Company's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(c) Future site restoration and abandonment costs:

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

(d) Financial instruments:

The Company periodically enters into derivative financial instrument contracts to manage exposure related to interest rates, petroleum and natural gas prices and foreign currency exchange rates. Amounts received or paid under interest rate swaps are recognized in interest expense, while settlement amounts on commodity and foreign currency hedge contracts are recognized in earnings as the related production revenues are recorded (see note 7).

A derivative must be designated and effective to be accounted for as a hedge. For cash flow hedges, effectiveness is achieved if the changes in the cash flows of the derivative substantially offset the changes in the cash flows of the hedged position and the timing of the cash flows is similar. Effectiveness for fair value hedges is achieved if the fair value of the derivative substantially offsets changes in the fair value attributable to the hedged item. In the event that a derivative does not meet the designation or effectiveness criterion, the gain or loss on the derivative is recognized in earnings. If a derivative that qualifies as a hedge is settled early, the gain or loss at settlement is deferred and recognized when the gain or loss on the hedged transaction is recognized. Premiums paid or received with respect to derivatives that are hedges are deferred and amortized to earnings over the term of the hedge.

(e) Per share amounts:

Diluted per share amounts are calculated using the treasury stock method. Diluted calculations reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options and warrants assuming the proceeds would be used to repurchase shares at average market prices for the period. Anti-dilutive options and warrants are not included in the calculation. In computing diluted earnings and cash flow from operations per share, 1,326,551 shares (2001 - 1,095,347) were added to the weighted average number of common shares outstanding during the year ended December 31, 2002.

(f) Stock-based compensation:

Effective January 1, 2002, the Company prospectively adopted the new Canadian accounting standard relating to stock based compensation. Under this standard the Company continues to follow the intrinsic method of accounting for stock options granted to employees whereby the proceeds received on exercise of options are included in capital stock and no compensation expense is recognized. For stock based compensation to non-employees, the Company will calculate a fair value using an option pricing model, and record the expense to earnings over the term of the option.

(g) Income taxes:

The Company uses the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(h) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The estimated cost of the renounced tax deductions are reflected in share capital and future income taxes when the expenditures are renounced. [Also see Note 5(b)]

Note 3. CAPITAL ASSETS:

2002	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	**$ 93,008**	**$ 44,218**	**$ 48,790**
Production equipment and facilities	**26,738**	**16,502**	**10,236**
Other	**1,371**	**976**	**395**
	$ 121,117	**$ 61,696**	**$ 59,421**

2001			
Petroleum and natural gas properties	$ 77,224	$ 39,138	$ 38,086
Production equipment and facilities	20,622	15,436	5,186
Other	1,154	865	289
	$ 99,000	$ 55,439	$ 43,561

Unproved property costs and salvage values of $8.0 million (2001 - $7.9 million) have been excluded from costs subject to depletion.

As at December 31, 2002, the estimated future site restoration costs to be accrued over the life of the remaining proven reserves were $3.8 million (2001 - $3.3 million).

During 2002, $1.0 million (2001 - $1.2 million) of general and administrative costs were capitalized.

Note 4. BANK DEBT:

The Company has a $25.0 million revolving operating demand loan. The revolving operating demand loan bears interest at bank prime rates, and is adjusted quarterly based on debt to cash flow ratios. The loan is secured by all of the Company's assets with a first floating charge debenture and a general security agreement. A review of these borrowing arrangements based on an engineering evaluation of the Company's oil and gas properties is scheduled on or before May 1, 2003. No principal payments are expected as long as the Company continues to meet existing covenants. Total debt outstanding at December 31, 2002 was $17.1 million, comprised of $15.6 million of bank debt and a working capital deficit (excluding bank debt) of $1.5 million.

The debt is classified as a current liability in 2002 to conform with accounting principles effective January 1, 2002.

Note 5. SHARE CAPITAL:

(a) Authorized:

Unlimited number of Common Shares without par value.

Unlimited number of First Preferred Shares, of which none have been issued.

Unlimited number of Second Preferred Shares, of which none have been issued.

(b) Common Shares issued:

	Number of Shares	Amount
Balance, December 31, 2000	32,295,564	$ 33,030
Issued on exercise of options	649,295	211
Flow-through shares issued for cash	3,124,739	2,968
Future income tax effect of flow-through shares		(1,266)
Cost of issue (net of future income taxes of $96,000)		(130)
Balance, December 31, 2001	36,069,598	34,813
Issued on exercise of options	75,712	23
Flow-through shares issued for cash	1,227,000	2,301
Future income tax effect of flow-through shares	–	(1,024)
Cost of issue (net of future income taxes of $62,000)	–	(76)
Stock-based compensation 5(f)	–	43
Balance, December 31, 2002	**37,372,310**	**$ 36,080**

During 2002, the Company issued 1,227,000 flow-through Common Shares for gross proceeds of $2.3 million. In accordance with the terms of its flow-through share offering, and pursuant to certain provisions of the Income Tax Act (Canada), the Company is required to renounce, for income tax purposes, exploration expenditures incurred to holders of its flow-through shares. Share capital was reduced and the future income tax liability increased by $1.0 million at December 31, 2002, to reflect the income tax benefits foregone of the expenditures renounced. At December 31, 2002, the Company is required to incur eligible exploration expenditures during 2003 of $2.3 million to satisfy the terms of the flow-through share offering.

During 2001, the Company issued 3,124,739 flow-through Common Shares for gross proceeds of $3.0 million. Share capital was reduced and the future income tax liability increased by $1.3 million at December 31, 2001, to reflect the income tax benefits foregone of the expenditures renounced. During 2002, the Company incurred the eligible exploration expenditures to satisfy the terms of the flow-through share offering.

Included in accounts receivable is a loan outstanding to an executive officer and director for $64,645 (2001 - $80,435). This loan is evidenced by a promissory note, is secured by a pledge of 197,672 Common Shares of the Company and bears interest at prime plus 1% per annum.

(c) Stock option plan:

The Company has a stock option plan to provide options for directors, officers and employees to purchase Common Shares of the Company.

The stock options are exercisable over a two to five-year period exercisable on a cumulative basis ranging from 20% to 50% per year.

Changes in the number of options with their weighted average exercise price are summarized below:

	2002 Number of Options	2002 Weighted Average Exercise Price	2001 Number of Options	2001 Weighted Average Exercise Price
Outstanding, beginning of year	**2,941,664**	**$ 0.92**	2,948,778	$ 0.74
Granted	**671,000**	**0.96**	734,108	1.12
Cancelled/expired	**(205,500)**	**5.40**	(91,927)	(0.86)
Exercised	**(75,712)**	**0.31**	(649,295)	(0.32)
Outstanding, end of year	**3,331,452**	**$ 0.66**	2,941,664	$ 0.92
Exercisable, end of year	**2,124,763**	**$ 0.49**	1,287,381	$ 1.20

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.25 - $0.38	231,463	1.5	$ 0.27	197,463	$ 0.27
$0.40 - $0.49	1,746,756	2.7	0.42	1,652,356	0.42
$0.70 - $1.05	711,000	3.5	0.89	96,533	0.81
$1.13 - $1.29	642,233	3.9	1.20	178,411	1.20
$0.25 - $1.29	3,331,452	3.3	$ 0.66	2,124,763	$ 0.49

(d) Per share amounts:

A total of 25,000 (2001 - 765,733) options were excluded from dilution calculations, as they were anti-dilutive.

(e) Shareholder Protection Rights Plan:

A Shareholder Protection Rights Plan (the "Rights Plan") was approved at the Annual and Special General Meeting of Shareholders on June 6, 2001. The Rights Plan utilizes the mechanism of the Permitted Bid to ensure that a person seeking control of the Company (an "Acquiring Person") allows shareholders and the Board of Directors sufficient time to evaluate the bid and time to explore and develop alternatives for maximizing shareholder value. The purpose of the Permitted Bid (a bid which provides that shares tendered to the bid will not be taken up prior to 60 days following the date of the bid) is to encourage a potential bidder to avoid the dilutive features of the Rights Plan by making a Permitted Bid or by negotiating with the Directors the terms of an offer which is fair to all shareholders. If a Take-Over-Bid does not qualify as a Permitted Bid, or if the Rights Plan is not waived by the Board of Directors in respect of that Take-Over-Bid, the Rights Plan provides that shareholders other than the Acquiring Person may purchase shares at a 50% discount to the market price thereby diluting the value of the Acquiring Person's shares. The Rights Plan will expire unless ratified by shareholders following its fifth anniversary and expires on its tenth anniversary.

(f) Stock-based compensation:

No compensation expense has been recognized when stock options are granted for employees. Had compensation expense been determined based on the fair value method for awards made after December 31, 2001, the Company's earnings and earnings per share would have been adjusted to pro forma amounts indicated below:

Earnings for the year – as reported	$ 2,741
Earnings for the year – pro forma	$ 2,657
Earnings per share basic – as reported	$ 0.08
Earnings per share basic – pro forma	$ 0.08
Earnings per share diluted – as reported	$ 0.07
Earnings per share diluted – pro forma	$ 0.07

The pro forma amounts exclude the effect of stock options granted prior to January 1, 2002. The weighted average fair value of options granted during the year ended December 31, 2002, was $0.66 per option using the Black-Scholes option pricing model. The following table sets out the assumptions used in applying the Black-Scholes model:

Risk free interest rate	5.5%
Expected life (in years)	5
Expected volatility	77%

Note 6. TAXES

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate to earnings before taxes. The difference relates to the following items:

	2002	2001
Statutory tax rate:	**44.2%**	44.5%
Expected tax provision	**$ 2,612**	$ 4,326
Increase (decrease) resulting from:		
Crown royalties, net of ARTC	**1,790**	1,331
Resource allowance	**(1,619)**	(1,821)
Benefit of accounting losses previously unrecognized	**–**	(240)
Other	**(63)**	–
Future income taxes	**2,720**	3,596
Capital and other taxes	**449**	340
	$ 3,169	$ 3,936

The components of the net future income tax liability are as follows:

	2002	2001
Future income tax assets:		
Non-capital losses	$ 1,733	$ 1,744
Future site restoration	926	796
Share issue costs	156	142
	2,815	2,682
Future income tax liabilities:		
Capital assets	(7,663)	(3,848)
Net future income tax liability	$ (4,848)	$ (1,166)

The Company has non-capital tax losses of $3.9 million which expire commencing in 2005.

Note 7. FINANCIAL INSTRUMENTS:

The Company is exposed to fluctuations in commodity prices, interest rates and exchange rates. The Company monitors and, when appropriate, utilizes financial instruments to manage its exposure to these risks.

(a) Commodity price risk management:

The Company periodically enters into oil and gas agreements to provide it exposure to a portfolio of pricing indices.

At December 31, 2002, the Company had a costless collar oil hedge in place for the period from April 1, 2002, to March 31, 2003, for 700 barrels of oil per day with a range of Cdn $35.00 to Cdn $44.75. The settlement of this hedge as at December 31, 2002, would have required a payment of $172,000.

(b) Foreign currency risk management:

The Company is exposed to foreign currency fluctuations. The Company may periodically use financial instruments, including forward exchange contracts and currency options to manage this exposure. At December 31, 2002, there were no contracts or options outstanding.

(c) Credit risk management:

Accounts receivable include amounts receivable for oil and gas sales. These sales are generally made to large, credit worthy purchasers. The Company views the credit risks on these items as insignificant. Amounts receivable from joint venture partners included in accounts receivable are recoverable from production and, accordingly, the Company views the credit risks on these amounts as insignificant.

(d) Fair values of financial instruments:

Cash, accounts receivable, accounts payable, accrued liabilities and bank debt have carrying values that approximate fair value due to the near term maturity of these financial instruments.

Supplemental Information

UNDEVELOPED LAND

Cavell substantially increased its inventory of total undeveloped land in 2002 through Crown land sales, property acquisitions and farm-ins. Cavell's inventory of undeveloped acreage is 122,547 net acres and has been valued by management at $110.00/acre totalling $12.0 million.

Western Saskatchewan increased its total undeveloped land inventory to 108,484 acres in 2002 (105,284 acres net of farm-in acres). With these additions, Cavell is in the enviable position of possessing ample resources to maximize growth on an accelerated basis.

PRODUCTION

Cavell averaged 2,244 boed in 2002, slightly lower than 2001 due to the short-term impact of the delay in Cavell's gas drilling program. Fourth quarter 2002 production significantly increased compared to the third quarter as Cavell's successful drilling program started to yield production results. Average daily production was 2,572 boed in the fourth quarter, with average daily production for December of 2,721 boed comprised of 9.3 mmcf/d of natural gas and 1,178 bbls/d of oil. December's average rate of 9.3 mmcf/d represents an increase of 138 per cent in natural gas production as compared to the third quarter's production of 3.9 mmcf/d.

This production increase demonstrates the growth potential contained in the Company's assets, providing a strong indication of Cavell's potential for 2003. The activities of 2002 strongly position Cavell to achieve its production goal of 5,000 boed by the end of 2004.

Years ended December 31,		2002			2001		
Production by Area	**bbl/d**	**mcf/d**	**boed**	bbl/d	mcf	boed	% change boed
SE Saskatchewan	**1,277**	**478**	**1,356**	1,479	665	1,590	(15)
WC Saskatchewan	**17**	**3,421**	**587**	73	1,632	345	70
SW Saskatchewan	–	**717**	**120**	–	–	–	100
Alberta	–	**1,085**	**181**	–	2,580	430	(58)
Total	**1,294**	**5,701**	**2,244**	1,552	4,877	2,365	(5)

ADDITIONS TO CAPITAL ASSETS

The following table shows Cavell's additions to capital assets on exploration, development and other types of capital expenditures for the periods indicated. Net additions to capital assets in 2002 were $22.2 million, with the majority focused in Cavell's Western Saskatchewan natural gas areas. This resulted in significant reserve and production gains in the latter part of the year.

Capital Expenditures ($000s)	**2002**	2001
Land acquisition and lease rentals	**$ 5,337**	$ 2,146
Acquisition of producing properties	**277**	–
Geological and geophysical	**2,795**	2,271
Drilling and completion	**10,886**	8.695
Lease and well equipment	**2,234**	2,975
Production facilities	**5,211**	1,275
Other	**223**	144
Total additions to capital assets	**26,963**	17,506
Proceeds on sale of capital assets	**(4,812)**	(1,120)
Total additions to capital assets	**$ 22,151**	$ 16,386

NET ASSET VALUE

Cavell estimated that its 2002 year-end net asset value is $2.15 per issued share based on the new year-end MBA and GLJ independent reserve evaluation. This is a 60 per cent increase over the 2001 year-end net asset valuation.

Net Asset Value ($000s, except as otherwise noted)

Years ended December 31,	**2002**	2001	% change
Net present value of established reserves discounted at 10%	**$ 82,566**	$ 47,293	75
Debt (including working capital deficit)	**(17,141)**	(9,379)	83
Undeveloped land and seismic*	**15,000**	10,500	43
Total	**$ 80,425**	$ 48,414	66
Outstanding Common Shares (Basic)	**37,372**	36,070	4
Net Asset Value per issued share	**$2.15**	$1.34	60

*Undeveloped land is valued at $110.00/acre and seismic values total $3.0 million

PETROLEUM RESERVES

Cavell's petroleum reserves have been evaluated as at January 1, 2003, by Martin & Brusset Associates (South East and West Central Saskatchewan) and Gilbert Laustsen Jung Associates (South West Saskatchewan). The following table summarizes the key findings of the independent reserve report.

Reserve Year		2002			2002		2001	%
Escalated Price		Net			Working Interest		W.I.	Change
As of January 1, 2003	Oil (mstb)	Gas (mmcf)	**Total mboe**	Oil (mstb)	Gas (mmcf)	**Total mboe**	Total mboe	
Proved Producing	2,065	12,217	**4,101**	2,470	14,683	**4,917**	3,535	
Proved Non-Producing	300	519	**387**	353	550	**446**	420	
Proved Undeveloped	725	10,534	**2,481**	799	11,356	**2,692**	1,385	
Proved Reserves (previous period)				4,411	5,577	**5,341**	5,611	
Discoveries				243	25,584	**4,507**	1,244	
Acquisitions (Disposals)				(8)	(2,852)	**(483)**	(252)	
Revisions				(552)	361	**(491)**	(399)	
Production				(472)	(2,081)	**(819)**	(863)	
Total Proved	3,090	23,270	**6,969**	3,623	26,589	**8,054**	5,341	51
Probable Additional	858	6,656	**1,968**	1,039	7,812	**2,341**	1,911	
Total Proved plus Probable	3,948	29,926	**8,937**	4,661	34,401	**10,395**	7,252	43
Risked Probable (50%)	(429)	(3,328)	**(984)**	(519)	(3,906)	**(1,170)**	(956)	
Established	3,519	26,598	**7,953**	4,142	30,495	**9,224**	6,296	47

* Columns/rows made not add due to rounding

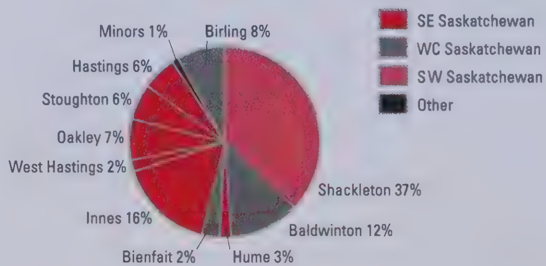
PRODUCTION REPLACEMENT AND RECYCLE RATIO

The reserve additions of 2002 contributed to increasing both Cavell's replacement and recycle ratios. Production has been replaced by 2.3 times over the past three years, indicating that the Company is effectively managing its resources for the future. The three-year recycle ratio was 2.0, measuring the efficiency of the Company's capital program relative to product netbacks.

	2002	2001*	2000	2000-2002
Replacement Ratio				
Production (mboe)	**819**	863	523	2,205
Proved Net Reserve Additions and Revisions	**3,533**	593	981	5,139
Production Replacement Ratio	**4.3**	0.7	1.9	2.3
Recycle Ratio				
Netbacks ($/boe)	**$ 18.25**	$ 20.97	$ 21.57	$ 20.10
Proved Finding and Development Costs ($/boe)	**$ 7.32**	$ 28.67	$ 9.41	$ 10.13
Recycle Ratio	**2.5**	0.7	2.3	2.0

*The 2001 recycle ratio is lower than other years principally as a result of reserve revisions and the drilling of PUD reserves.

Total Proved Reserves by Area (6:1)
December 31, 2002



NET PRESENT VALUE SUMMARY

	Discounted Net Cash Flow before Tax ($000s)				2001	% Change
January 1, 2003	0%	10%	15%	20%	10%	@10%
Proved Producing	$ 76,002	$ 48,277	$ 42,029	$ 37,624	$ 27,158	78
Proved Non-Producing	5,324	3,573	3,067	2,686	2,767	29
Proved Undeveloped	45,502	23,092	18,043	14,615	10,988	110
Total Proved	$ 126,828	$ 74,942	$ 63,139	$ 54,925	$ 40,913	83
Probable Additional	41,321	15,248	11,237	8,818	12,760	20
Total Proved plus Probable	$ 168,149	$ 90,190	$ 74,376	$ 63,743	$ 53,673	68
Risked Probable (50%)	(20,661)	(7,624)	(5,619)	(4,409)	(6,380)	20
Established*	$ 147,488	$ 82,566	$ 68,757	$ 59,334	$ 47,293	75

*Established = Proved + 1/2 Probable

In preparing the net present values, MBA and GLJ assumed total net capital expenditures of $11.5 million over the life of the total reserves. The first five years of MBA and GLJ's January 1, 2003, oil and gas price forecast used in Cavell's year-end reserve report is as follows:

Year	WTI Crude US$/bbl	Sask Spot Cdn$/mcf
2003	$24.00	$5.65
2004	$22.00	$5.00
2005	$22.00	$4.70
2006	$22.10	$4.85
2007	$22.40	$4.85

DRILLING HISTORY

The following table sets forth Cavell's gross and net exploratory and development wells drilled for the periods indicated.

	2002		2001	
	Gross Wells (2)	Net Wells (2)	Gross Wells (2)	Net Wells (2)
Productive Wells (1)	35	34	17	15
Suspended	9	9	7	7
Dry and abandoned	6	6	4	4
Total	50	49	28	26
Success Rate	88%		84%	

Notes:

(1) "Productive well" means any well that at time of rig release was anticipated to produce sufficient revenues to cover necessary expenditures for completion costs, equipping costs, operating costs and royalties.

(2) "Gross wells" means the total number of wells in which Cavell has an interest and "Net wells" means the number of Gross wells multiplied by Cavell's working interest in such wells, shown on the basis that all interests convertible at payout have not been converted.

FISCAL 2002 QUARTERLY SUMMARY

(thousands of Canadian dollars, except volume and share data)

	Q1	Q2	Q3	Q4	Year
Financial					
Petroleum and natural gas sales	5,263	5,969	5,958	7,975	25,165
Royalties	1,324	1,264	1,015	1,744	5,347
Production expenses	1,101	1,077	1,315	1,376	4,869
Field netbacks	2,838	3,628	3,628	4,855	14,949
Cash flow from operations	2,153	2,962	3,059	4,029	12,203
Per share - basic ($)	0.06	0.08	0.09	0.11	0.34
Per share - diluted ($)	0.06	0.08	0.08	0.11	0.33
Net earnings	93	716	841	1,091	2,741
Per share - basic ($)	–	0.02	0.03	0.03	0.08
Per share - diluted ($)	–	0.02	0.03	0.02	0.07
Net additions to capital assets	5,391	3,538	4,001	9,221	22,151
Bank debt	11,000	11,850	11,100	15,600	15,600
Total debt	12,572	13,142	14,084	17,141	17,141
Common shares outstanding					
End of period	36,076,598	36,094,445	36,094,445	37,372,310	37,372,310
Weighted average	36,071,931	36,091,471	36,094,445	36,236,359	36,123,551
Operations					
Oil (bbls)	121,329	111,025	124,762	115,161	472,277
Natural gas (mcf)	516,624	477,618	357,978	728,779	2,080,999
Average production 6:1	207,433	190,628	184,425	236,624	819,110
Average production (boed) 6:1	2,305	2,095	2,005	2,572	2,244
WTI ($US/bbl)	21.67	26.25	28.39	28.32	26.11
Average oil sales price ($/bbl)	29.96	37.40	39.19	37.56	36.00
Average gas sales price ($/mcf)	3.15	3.80	2.99	5.01	3.92
Average sales price ($/boe)	25.37	31.32	32.31	33.70	30.72
Field netbacks ($/boe)	13.68	19.04	19.67	20.52	18.25
Wells drilled					
Gross	11	4	12	22	49
Net	10	4	12	22	48
Success rate (%)	55	100	92	100	88

FISCAL 2001 QUARTERLY SUMMARY

(thousands of Canadian dollars, except volume and share data)

	Q1	Q2	Q3	Q4	Year
Financial					
Petroleum and natural gas sales	6,546	7,432	8,299	4,996	27,273
Royalties	1,370	1,182	1,217	932	4,701
Production expenses	952	1,148	1,157	1,211	4,468
Field netbacks	4,224	5,102	5,925	2,853	18,104
Cash flow from operations	3,556	4,477	5,347	2,186	15,566
Per share - basic ($)	0.11	0.14	0.16	0.06	0.47
Per share - diluted ($)	0.11	0.13	0.16	0.06	0.46
Net earnings	1,873	1,732	2,164	15	5,784
Per share - basic ($)	0.06	0.05	0.07	–	0.18
Per share - diluted ($)	0.06	0.05	0.06	–	0.17
Net additions to capital assets	4,898	3,567	4,146	3,775	16,386
Bank debt	10,490	10,500	9,000	8,800	8,800
Total debt	12,681	11,767	10,546	9,379	9,379
Common shares outstanding					
End of period	32,826,345	32,841,787	32,902,478	36,069,598	36,069,598
Weighted average	32,363,765	32,833,141	32,856,203	33,385,940	32,862,553
Operations					
Oil (bbls)	98,652	142,451	183,538	142,000	566,641
Natural gas (mcf)	363,279	433,433	524,502	458,933	1,780,147
Average production 6:1	159,199	214,690	270,955	218,489	863,333
Average production (boed) 6:1	1,769	2,359	2,945	2,375	2,365
WTI ($US/bbl)	28.70	27.97	26.50	20.31	25.86
Average oil sales price ($/bbl)	34.53	35.65	36.92	25.56	33.33
Average gas sales price ($/mcf)	8.64	5.44	2.90	2.98	4.71
Average sales price ($/boe)	41.12	34.62	30.63	22.87	31.59
Field netbacks ($/boe)	26.54	23.76	21.87	13.06	20.97
Wells drilled					
Gross	9	7	7	5	28
Net	9	7	5	5	26
Success rate (%)	89	86	86	80	84

FOUR-YEAR SUMMARY

(thousands of Canadian dollars, except volume and share data)

	2002	2001	2000	1999
Financial				
Revenues				
Petroleum and natural gas sales	**25,165**	27,273	19,243	9,115
Royalties	**5,347**	4,701	4,386	2,125
Revenue, net of royalties	**19,818**	22,572	14,857	6,990
Expenses				
Production	**4,869**	4,468	3,571	2,455
General and administration	**1,751**	1,434	892	987
Interest	**589**	764	986	926
Depletion and depreciation	**6,257**	5,545	2,424	1,882
Site restoration	**442**	641	338	280
Cash flow from operations	**12,203**	15,566	9,017	2,314
Per share - basic ($)	**0.34**	0.47	0.29	0.08
Per share - diluted ($)	**0.33**	0.46	0.28	0.08
Net earnings (loss)	**2,741**	5,784	9,855	(212)
Per share - basic ($)	**0.08**	0.18	0.32	(0.01)
Per share - diluted ($)	**0.07**	0.17	0.31	(0.01)
Balance sheet information				
Net capital additions	**22,151**	16,386	8,498	3,322
Bank debt	**15,600**	8,800	9,678	11,500
Total debt	**17,141**	9,379	11,512	12,701
Total assets	**64,631**	47,678	39,461	28,238
Shareholders' equity	**34,638**	30,630	23,063	12,538
Common share information				
Shares outstanding at year end (000s)				
Basic	**37,372**	36,070	32,296	30,050
Diluted	**38,699**	37,165	35,724	34,488
Weighted average common shares (000s)				
Basic	**36,124**	32,863	30,722	27,237
Diluted	**37,450**	33,958	31,817	31,740
Equity market capitalization	**51,200**	29,938	17,763	5,108
Operations				
Reserves (000s of boe 6:1)				
Proven	**8,054**	5,341	5,610	5,120
Probable (unrisked)	**2,341**	1,912	2,042	1,712
Total	**10,395**	7,252	7,653	6,832
Established	**9,224**	6,296	6,632	5,976
Production and netbacks				
Average boe per day	**2,244**	2,365	1,429	1,086
Total boe	**819,110**	863,333	523,141	396,386
Average sales price ($/boe)	**30.72**	31.59	36.78	23.00
Operating costs ($/boe)	**5.94**	5.17	6.83	6.19
Field netbacks ($/boe)	**18.25**	20.97	21.57	11.44
All-in cash netback ($/boe)	**14.85**	18.03	17.37	5.84
Land holdings				
Total land (000s of net acres)	**149**	106	127	107
Undeveloped land (000s of acres)	**126**	97	116	98
Drilling activity				
Gross wells	**50**	28	17	7
Net wells	**49**	26	13	7
Success rate (%)	**88**	84	85	70
Number of employees				
Head office	**15**	12	12	13
Field office	**2**	1	1	1

Corporate Information

Board of Directors

David J. Evans (2) (3)
President & CEO,
Defiant Energy Corporation
Chairman, Cavell Energy Corporation

Henry J. Knowles (1) (2) (3)
Counsel, Sheldon Huxtable
Non-Executive Secretary,
Cavell Energy Corporation

Bryan H. Lawrence (1) (3)
Member, Yorktown Partners LLC

Murray D. McCartney (2)
President & CEO,
Cavell Energy Corporation

Glen A. Volk
Vice President,
Production & Operations,
Cavell Energy Corporation

Stanley H. Wong (1) (3)
President,
Carbine Resources Ltd.

Officers

Murray D. McCartney
President & CEO

Arthur J. G. Madden
VP Finance & CFO

Wallace G. W. King, Jr.
VP Exploration & Development

Glen A. Volk
VP Production & Operations

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee

Cavell Staff

Julie Bentley
Land Assistant, Consultant

Kathleen Black
Controller

Ruth Gee
Receptionist/Office Assistant

Maria Giancola
Accounting Assistant

Carol Greenwood
Accounting Analyst

Marcus A. Hladik
Senior Geologist

Ken Morrison
Production Foreman

Jocelyn Mugleston
Senior Accountant

Monica Nunn
Land Consultant

Leroy Peats
Engineering Consultant

Elmer Pelensky
Manager, Corporate Development

Deborah L. Poirier
Engineering Assistant

Gary Posehn
Geological Consultant

Shelley Purvis
Administrative Assistant

Don Richards
Geological Consultant

Brad Rowsell
Geophysicist

Ian Rowsell
Technician

Ross Runciman
Manager, Business Development

Bonnie Smith
Production Accountant

Susan J. Soprovich
Director, Investor Relations

Eric Stobbart
Senior Geological Technologist

Paul M. Storey
Manager, Field Operations

Ken Swenson
Production Foreman

Rebecca Ward
Executive Assistant

Legal Counsel

Sheldon Huxtable
Toronto, Ontario

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Field Office

Midale, Saskatchewan

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol: **KVL**

Transfer Agent

Computershare Trust Company of Canada
600, 530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Abbreviations

bbls	barrels
mbbls	thousands of barrels
boe	barrels of oil equivalent
boed	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
WTI	West Texas Intermediate
mcf	thousand cubic feet
mmcf	million cubic feet
mstb	thousand stock tank barrels
mmstb	million stock tank barrels
mmbtu	million British thermal units

Conversion

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

TO CONVERT FROM	TO	MULTIPLY BY
mcf	cubic metres (m^3)	28.174
cubic metres (m^3)	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres (m^3)	bbls	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

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